

# **CITY OF MOUNTAIN VIEW, CALIFORNIA**



## **FISCAL YEAR 2011-12 GENERAL OPERATING FUND NARRATIVE BUDGET REPORT AND FISCAL YEARS 2011-2021 LONG-RANGE FINANCIAL FORECAST**

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**CITY OF MOUNTAIN VIEW  
MEMORANDUM**

DATE: April 28, 2011

TO: City Council

FROM: Melissa Stevenson Dile, Interim City Manager  
Patty J. Kong, Finance and Administrative Services Director

SUBJECT: MAY 3, 2011 STUDY SESSION—FISCAL YEARS 2011-21 GENERAL  
OPERATING FUND LONG-RANGE FINANCIAL FORECAST

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**RECOMMENDATION**

That the City Council review and discuss the Fiscal Years 2011-21 General Operating Fund Long-Range Financial Forecast which will provide information for formulating a proposed budget to be reviewed by the City Council at public hearings on June 7 and June 14, 2011.

**INTRODUCTION**

As a major goal for Fiscal Year 2010-11, staff has completed an update to the General Operating Fund (GOF) 10-year Long-Range Financial Forecast (LRFF). Although a 5-year financial forecast of the GOF has been included in the adopted budget document each fiscal year since Fiscal Year 1997-98, a 10-year perspective can provide a deeper and longer-range analysis of the City's GOF revenues and expenditures.

The most significant State of California (State) and national economic crisis since the Great Depression began in late 2007 and became apparent in 2008. The "Great Recession" was declared over as of June 2009, lasting 18 months; the longest post-World War II recession; and although there are some recent signs of recovery, the City continues to be impacted by declines in property taxes, Utility Users Tax and investment earnings. Most of the remaining revenue sources are exhibiting slow to moderate growth for the current fiscal year. The Fiscal Years 2011-21 LRFF has been prepared during a time of transition—there are small, recent signs of revenue recovery—interest rates have increased gradually over the past couple of months and unemployment in both the City and Santa Clara County (County) has declined from their respective peaks. However, County-wide property values are still suffering from the effects of foreclosures, declines in assessed value (AV) and the stagnant construction industry of the past couple of years. Mountain View has not been as adversely affected by the home foreclosure crisis and drastically declining home values as many parts of

the State and country, but other economic factors, such as job losses and the reduced value of many investment vehicles, have reduced personal wealth and retirement savings plans, shaking consumer confidence and affecting personal spending decisions. Discerning accurate, near-future and longer-term repercussions to Mountain View for trends (property values, retail business sales, business-to-business transactions, resident and business spending decisions, investment yields, etc.) that could affect the City's revenues is difficult in stable economic times and is even more challenging during this transition period.

Understanding these caveats, the forecast in this report is based on reasonable assumptions utilizing available information from a wide variety of sources. These sources included reviewing the City's historical trends, gathering information from economists that specialize in the regional economics of Silicon Valley, networking with staff of neighboring agencies, reviewing State and national economic trends, and factoring in known Mountain View conditions. Nevertheless, forecast projections and actual future revenues and expenditures will vary from the forecast numbers. Confidence levels in the forecast assumptions become more uncertain with each subsequent fiscal year. However, the trend, based on the assumptions utilized and assuming the Fiscal Year 2011-12 will be structurally balanced, indicates revenues through Fiscal Year 2018-19 will exceed expenditures, but these forecast years do not include cost-of-living adjustments (COLAs) for employees.

The forecast is focused on the General Operating Fund (GOF) which provides financing for the majority of City services, including Police, Fire, Parks, Recreation, Library and administrative functions necessary for ongoing City operations. The GOF is also the fund that is most influenced by economic recessions.

## **EXECUTIVE SUMMARY**

During challenging economic periods, times of relative stability or even during economic growth, the practice of long-range financial forecasting is beneficial to a city's financial planning process. While it is challenging to accurately forecast local government revenues due to the variable nature of the revenue sources and their connection to regional, state, national and international economic conditions, it is possible to identify reasonable financial trends and provide a conceptual financial picture for the next 10 years that will be useful to the City's decision-making.

For many years a 5-year forecast has been prepared and presented to City Council with the proposed budget. For Fiscal Year 2008-09, the City Council set as a high-priority goal the development of a 10-year financial forecast which was presented to Council in January 2009. As this forecast is used for planning purposes, it is prudent to update the



10-year financial forecast every two to three years. This report is an update for the time period of Fiscal Year 2011-12 to Fiscal Year 2020-21.

A 10-year financial forecast, even with unpredictable economic variables, can help identify long-term financial trends, causes of fiscal imbalances, future fiscal challenges and opportunities, and potential requirements which will assist in finding a path toward fiscal sustainability. Recovery from the recession may occur at a pace different than anticipated in the LRFF and actual revenues and expenditures in future years may vary significantly from the forecast, but trend lines will be apparent and can serve as a foundation for the City Council's decision-making for Fiscal Year 2011-12 goal-setting and budget deliberations.

Fundamentally, a budget deficit can be closed by reducing expenditures, increasing revenues or a combination of both. Expenditure reductions achieved by reducing employee headcount were implemented extensively during the recessionary periods of the past 20 years. Since Fiscal Year 1990-91, the number of GOF positions has been reduced a net 41.9 full-time equivalent (FTE) positions or 8.4 percent.<sup>1</sup> During those 20 years, some minor service-level and staffing restorations occurred and, from the peak in Fiscal Year 2001-02, the number of GOF positions has been reduced a net 69.3 FTE positions or 13.2 percent. Overall, the City is operating at a very lean staffing level for the level of services provided.

For Fiscal Year 2011-12, the City is currently facing a projected revenue under expenditure gap of approximately \$2.6 million, \$585,000 more than estimated midyear due to higher health-care costs and State budget impacts. This projected gap is based on a status quo budget with no new service enhancements or salary increases, but does include nondiscretionary cost increases of approximately \$110,000 and increased costs for utilities (\$145,000 due to rate recommendations) and fleet maintenance (\$50,000). Although total revenues are projected to increase \$1.7 million compared to the current fiscal year adopted, expenditures are projected to increase \$4.6 million, \$3.7 million of which is related to retirement and health-care costs increases.

The subsequent 10 years of the forecast period do not include any cost-of-living (COLA) increases, as there are no labor contracts currently in place and to demonstrate the trend for expenditures that are not within the City's control. Although it is not possible to predict how and when such compensation adjustments would occur, salaries and benefits in the forecast years do increase \$1.7 million, to \$3.0 million annually, primarily the result of increases in retirement and health-care costs and a smaller portion related to step and merit increases and retiree health-care funding. In addition, services and supplies are projected to increase approximately \$338,000 to \$466,000 annually for inflationary increases.

Fiscal Year 2012-13 projected revenue grows by 3.9 percent and the projected expenditures include anticipated increases for retirement and health benefit costs, resulting in a \$1.7 million deficit balance. However, elimination of the projected Fiscal Year 2011-12 structural deficit will also eliminate the negative operating balance projected for Fiscal Year 2012-13. The combination of structurally balancing the Fiscal Year 2011-12 budget as recommended eliminates the deficit balances for Fiscal Year 2011-12 through Fiscal Year 2015-16. The following four fiscal years (2016-17 through 2018-19) are projected with positive operating balances based on the assumption major revenue sources will continue to grow and development projects will successfully complete the planning and construction phases and begin generating property and sales taxes. A recession is projected during this 10-year forecast to begin in Fiscal Year 2019-20 and resulting in negative balances the last two years of the LRFF.

Salaries and benefits are approximately 79.8 percent of 2011-12 projected GOF expenditures. To control expenditures, the City has eliminated positions during prior recessionary periods and, when the financial situation allowed and as approved by Council, added positions for new programs, service improvements and restoration of prior program/service reductions. As stated earlier, today the City operates with fewer GOF positions than it did in the early 1990s. There have been three significant periods of retrenchment over the last 20 years—early 1990s, early to mid-2000s and, most recently, the unfunding of 25.0 FTE positions (21.0 in GOF) in Fiscal Years 2009-10 and 2010-11.

Enhancing revenue through economic development, utilization of City-owned properties, tax measures and new/amended fees have been discussed many times during the past two decades and the City has incorporated most of these strategies into balancing prior fiscal year budgets. Most recently, the Mountain View voters approved an amendment to the Utility Users Tax Ordinance, expanding the base of taxable services in order to preserve this important GOF revenue source. There are additional ballot measures that could be presented for voter approval in the future, such as an increase to property-based taxes, sales tax, business license tax, transient occupancy tax, special-purpose assessment districts, etc.

## OVERVIEW

As previously mentioned, this report discusses projections for annual General Operating Fund revenues and expenditures for the next 10 fiscal years, through Fiscal Year 2020-21. As this recession was more severe, the recovery is anticipated to be significantly slower, but the behavior of important revenue sources in previous recessions were analyzed for indications about recovery patterns. Operating revenue projections are based on many factors, including historical trends, current fiscal year estimated revenues, the estimated impact of the lingering "recessionary" climate to revenues (e.g., property tax values, unemployment levels, etc.) and assumptions regarding future fiscal year revenue trends and outcome of development.

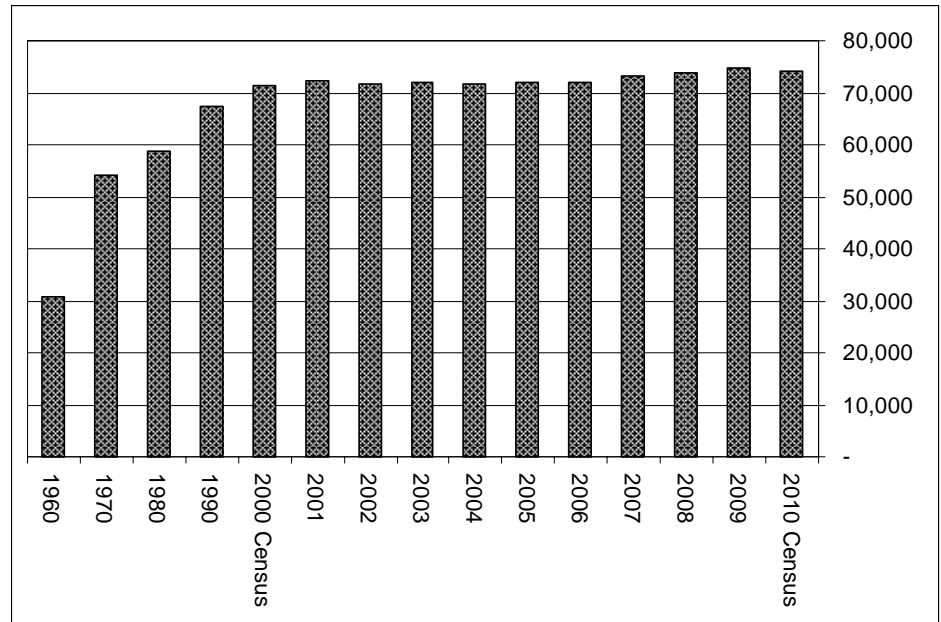
Operating expenditures, consisting of the annual cost of staffing, services, capital outlay and equipment replacement are generally more predictable than revenues. For Fiscal Year 2011-12, a base level of expenditures is calculated utilizing the current fiscal year adopted budget and adjusting for increases related to retirement and health-care costs, City utilities, equipment maintenance and the General Operating Fund's share of self-insurance funding. No COLAs for employees are included for Fiscal Year 2011-12 or throughout the remainder of the forecast period. Expenditure projections are based on long-term patterns for each expenditure account. The factors for future health benefit costs and the Public Employees Retirement System (PERS) rates were obtained from outside consultants with expertise in these fields (except PERS rates for Fiscal Year 2012-13 and Fiscal Year 2013-14 were provided by PERS). Staff also received energy cost estimates from the California Energy Commission.

The General Plan option endorsed by the City Council projects the residential population of the City will be approximately 80,000 by the Year 2021. This 6,000 increase in population is not anticipated to require a significant increase in the levels of services currently provided. This same population percentage increase (8.0 percent) was experienced from 1990 to 2007 and did not result in a significantly increased demand for services. There were service level increases, but these were more the result of programs deemed desirable for creation or enhancement, partnerships with the local school districts and/or the addition of parks and facilities. The following chart

shows historical population annually for the past 10 years and each U.S. Census year back to 1960. As can be seen, from the 2000 Census to the 2010 Census, the City of Mountain View population grew by 2,697 (3.8 percent).

### Population

1960	30,889
1970	54,132
1980	58,722
1990	67,460
2000 Census	71,369
2001	72,242
2002	71,610
2003	72,000
2004	71,600
2005	72,033
2006	71,995
2007	73,262
2008	73,932
2009	74,762
2010 Census	74,066



Source: California State Department of Finance

The current level of City services, staffing and cost of operations projected for Fiscal Year 2011-12 is the base year for projecting the subsequent fiscal years' expenditures. The amounts shown for expenditures are calculated on the same basis as the annual budget, including the full cost of each existing position (salary and benefits) and nonsalary expenditures for services and supplies. The forecast does not include COLAs for any employees throughout the forecast period in order to demonstrate to Council the financial picture on a budgetary basis.

Each fiscal year stands on its own and no assumptions are made to reduce expenditures in order to balance each subsequent fiscal year's budget. The size of the revenue/ expenditure gap will decrease proportionately should revenue growth exceed forecast assumptions and/or, should expenditures be eliminated from the budget.

### ECONOMIC CLIMATE FACTORS

There are factors which impact each individual revenue source, some of which have broad ranges affecting multiple revenues and some are specific to an individual revenue source. The annual 5-year forecast includes a discussion of economic factors,

but events over the past several years have been unprecedented and have added new factors into the mix. These factors are discussed below:

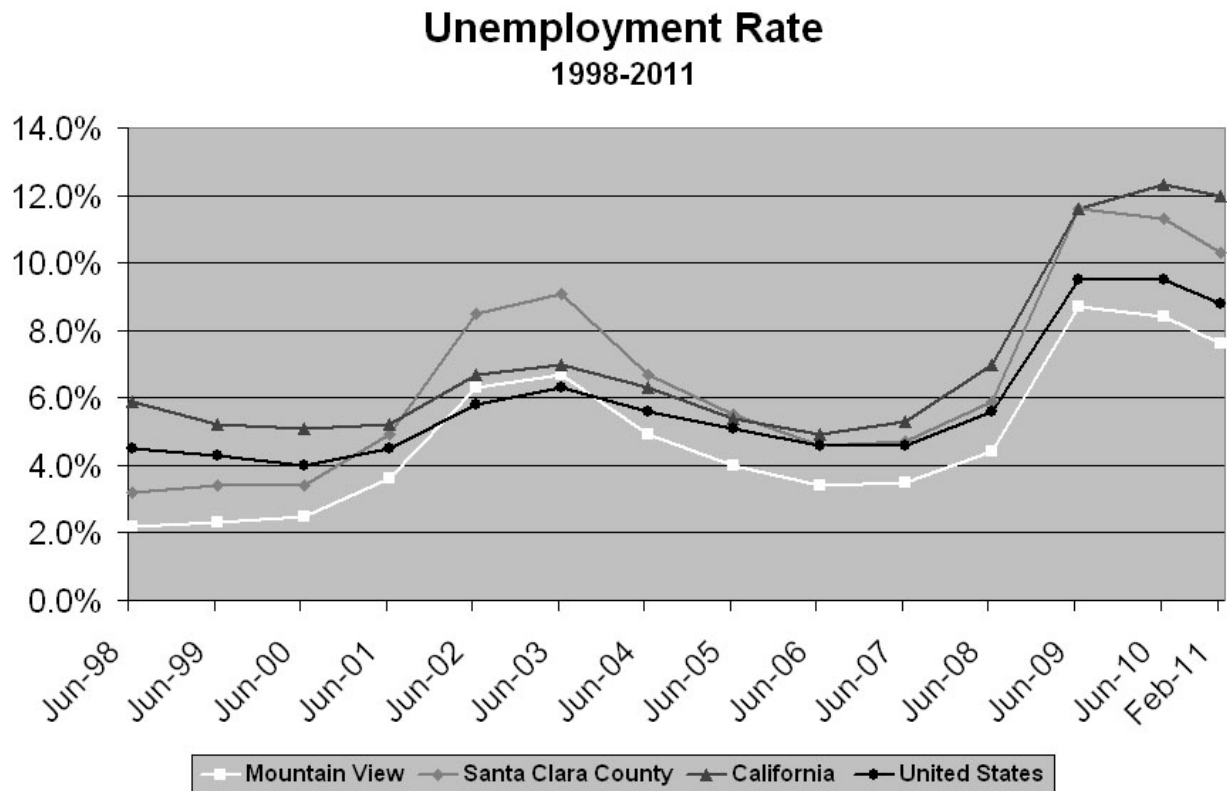
#### Residential and Commercial Assessed Values

As the nationwide housing crisis was at the center of the recession that began in December 2007, it is not surprising residential assessed value (AV) has experienced such a dramatic decline. Across the nation, the related market losses, business slow-down and high unemployment levels put additional pressure on AV as consumers became less willing to spend and many unemployed homeowners were unable to keep up with their mortgage payments—some eventually losing their homes to foreclosure. The number of housing sales in the City during calendar year 2010 (last time frame information is available) have increased to the same level as calendar year 2007. However, the median price is lower than that of 2007.

Although Mountain View and some other surrounding cities have not been as drastically impacted as other parts of the County, State or the nation, the City is not immune to the effects of the housing crisis. When the market value of a property falls below the AV enrolled on the tax roll, the tax roll value is reduced to the market value. For Fiscal Years 2008-09, 2009-10 and 2010-11, the County processed 5,882 (5,739 General Fund) Proposition 8 reductions, the proactive review by the County of residential properties, and residential and commercial revaluations submitted by property owners. As of the Fiscal Year 2010-11 tax roll, there has been a total City-wide AV reduction of \$1.0 billion (\$973.0 million General Fund) as a result of these Proposition 8 reductions. The County is required to annually review these properties and, based on market conditions, restore the value until each property reaches the previously enrolled value. In addition, from January 2008 through December 2010, there have been 145 foreclosures in the City, 0.9 percent of the County total, and these also have had a negative impact to the City's tax roll.

## Unemployment

As detailed in the chart below, Mountain View's unemployment level has been below the County, State and nation, except during the recession of the early 2000s which hit Silicon Valley the hardest. As of February 2011, unemployment in the City is at 7.6 percent but is well below the County (10.3 percent), the State (12.1 percent) and the nation (8.9 percent). Beacon Economics, a locally based economic research firm, projects the South Bay unemployment rate will decline to prerecession levels by late 2013.



## State of California

The State is still in dire financial condition with a projected gap of approximately \$25.4 billion (\$8.2 billion for Fiscal Year 2010-11 and \$17.2 billion for Fiscal Year 2011-12). Newly elected Governor Brown has been unable to accomplish his goal, as part of his Fiscal Year 2011-12 budget recommendation, of attaining approval for extension of the taxes set to expire at the end of June. Governor Brown has previously stated that if the taxes are not extended, there will be additional expenditure reductions required to balance the budget. Some reductions to State expenditures have been approved, but not enough to balance the budget. The projected impact to the City is \$359,000 and this has been incorporated into the budget gap of \$2.6 million. In

addition, the Governor has proposed elimination of redevelopment agencies. If this comes to fruition, any costs which will have to shift to the General Operating Fund will increase the projected operating deficit.

## **REVENUE AND EXPENDITURE OVERVIEW**

Every fiscal year, there are typically cost increases as a result of negotiated agreements for employee compensation and inflationary increases for benefits, materials and supplies. In order to maintain this base level of services, revenue growth is necessary. If the existing revenue base cannot generate sufficient revenues to fund the cost of operations, the economic base must be enhanced or operating costs reduced.

Fiscal Year 2011-12 status quo revenues (including State impact of \$109,000) are projected to grow to a total of \$89.4 million and status quo expenditures (including State impact of \$250,000) are projected to increase to \$94.8 million, and after allowing for projected budget savings of \$2.8 million, result in a negative funding gap of \$2.6 million.

A projection of major revenue and expenditure categories for the next 10 fiscal years shown in dollars and as an annual percentage change can be found on the following tables.

**GENERAL OPERATING FUND FORECAST**  
(amounts in thousands)

	<b>2010-11 ESTIMATED</b>	<b>2011-12 FORECAST</b>	<b>2012-13 FORECAST</b>	<b>2013-14 FORECAST</b>	<b>2014-15 FORECAST</b>	<b>2015-16 FORECAST</b>	<b>2016-17 FORECAST</b>	<b>2017-18 FORECAST</b>	<b>2018-19 FORECAST</b>	<b>2019-20 FORECAST</b>	<b>2020-21 FORECAST</b>
<b>REVENUES:</b>											
Property Tax	\$25,185	25,987	27,428	28,666	30,007	31,142	33,210	33,993	34,930	35,241	35,918
Sales Tax	15,861	16,802	17,837	19,093	20,310	21,122	21,967	22,845	23,531	22,355	21,237
Other Taxes	9,723	10,444	10,888	11,318	11,684	12,088	12,459	12,752	12,770	11,600	10,570
Use of Money and Property	10,514	10,811	10,912	11,170	11,582	12,054	12,647	13,134	13,628	14,045	14,326
Other Revenue	24,188	23,422	23,860	23,862	24,034	24,438	24,863	25,321	25,745	25,350	25,053
Loan Repayments	<u>2,060</u>	<u>1,894</u>	<u>1,894</u>	<u>1,894</u>	<u>1,894</u>	<u>1,472</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
<b>TOTAL REVENUES</b>	<b><u>87,531</u></b>	<b><u>89,360</u></b>	<b><u>92,819</u></b>	<b><u>96,003</u></b>	<b><u>99,511</u></b>	<b><u>102,316</u></b>	<b><u>105,146</u></b>	<b><u>108,045</u></b>	<b><u>110,604</u></b>	<b><u>108,591</u></b>	<b><u>107,104</u></b>
<b>EXPENDITURES:</b>											
Salaries and Benefits	68,238	75,529	77,646	80,670	82,389	84,382	86,225	88,055	89,890	91,757	93,652
Services and Supplies	12,828	14,224	14,561	15,028	15,387	15,755	16,152	16,561	16,981	17,413	17,857
Other Operating	<u>5,089</u>	<u>5,104</u>	<u>5,213</u>	<u>5,340</u>	<u>5,404</u>	<u>5,541</u>	<u>5,698</u>	<u>5,859</u>	<u>6,028</u>	<u>6,203</u>	<u>6,385</u>
<b>TOTAL EXPENDITURES</b>	<b><u>86,155</u></b>	<b><u>94,857</u></b>	<b><u>97,420</u></b>	<b><u>101,038</u></b>	<b><u>103,180</u></b>	<b><u>105,678</u></b>	<b><u>108,075</u></b>	<b><u>110,475</u></b>	<b><u>112,899</u></b>	<b><u>115,373</u></b>	<b><u>117,894</u></b>
<b>BUDGET SAVINGS</b>	<b><u>Included</u></b>	<b><u>(2,849)</u></b>	<b><u>(2,908)</u></b>	<b><u>(2,935)</u></b>	<b><u>(2,951)</u></b>	<b><u>(3,039)</u></b>	<b><u>(3,131)</u></b>	<b><u>(3,224)</u></b>	<b><u>(3,321)</u></b>	<b><u>(3,421)</u></b>	<b><u>(3,524)</u></b>
<b>OPERATING BALANCE/ (DEFICIT)</b>	<b><u>\$ 1,376</u></b>	<b><u>(2,648)</u></b>	<b><u>(1,693)</u></b>	<b><u>(2,100)</u></b>	<b><u>(718)</u></b>	<b><u>(323)</u></b>	<b><u>202</u></b>	<b><u>794</u></b>	<b><u>1,026</u></b>	<b><u>(3,361)</u></b>	<b><u>(7,266)</u></b>
<b>BUDGET BALANCING:</b>											
Revenue Increases		1,167	867	867	867	867	867	867	867	867	867
Operational Efficiencies		<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>
<b>REMAINING OPERATING BALANCE/(DEFICIT)</b>		<b><u>(1,101)</u></b>	<b><u>(446)</u></b>	<b><u>(853)</u></b>	<b><u>529</u></b>	<b><u>924</u></b>	<b><u>1,449</u></b>	<b><u>2,041</u></b>	<b><u>2,273</u></b>	<b><u>(2,114)</u></b>	<b><u>(6,019)</u></b>



**GENERAL OPERATING FUND FORECAST**  
(annual percent change)

	<u>2011-12 FORECAST</u>	<u>2012-13 FORECAST</u>	<u>2013-14 FORECAST</u>	<u>2014-15 FORECAST</u>	<u>2015-16 FORECAST</u>	<u>2016-17 FORECAST</u>	<u>2017-18 FORECAST</u>	<u>2018-19 FORECAST</u>	<u>2019-20 FORECAST</u>	<u>2020-21 FORECAST</u>	<u>10-Year AVERAGE</u>
REVENUES:											
Property Tax	3.2%	5.5%	4.5%	4.7%	3.8%	6.6%	2.4%	2.8%	0.9%	1.9%	3.6%
Sales Tax	5.9%	6.2%	7.0%	6.4%	4.0%	4.0%	4.0%	3.0%	(5.0%)	(5.0%)	3.1%
Other Taxes	7.4%	4.3%	3.9%	3.2%	3.5%	3.1%	2.4%	0.1%	(9.2%)	(8.9%)	1.0%
Use of Money and Property	2.8%	0.9%	2.4%	3.7%	4.1%	4.9%	3.9%	3.8%	3.1%	2.0%	3.1%
Other Revenue	(3.2%)	1.9%	0.0%	0.7%	1.7%	1.7%	1.8%	1.7%	(1.5%)	(1.2%)	0.4%
Loan Repayments	(8.1%)	0.0%	0.0%	0.0%	(22.3%)	(100.0%)	0.0%	0.0%	0.0%	0.0%	(3.0%)
TOTAL REVENUE	2.1%	3.9%	3.4%	3.7%	2.8%	2.8%	2.8%	2.4%	(1.8%)	(1.4%)	2.1%
EXPENDITURES:											
Salaries and Benefits	5.4%	2.8%	3.9%	2.1%	2.4%	2.2%	2.1%	2.1%	2.1%	2.1%	2.7%
Services and Supplies	3.3%	2.4%	3.2%	2.4%	2.4%	2.5%	2.5%	2.5%	2.5%	2.5%	2.6%
Other Operating	5.9%	2.1%	2.5%	1.2%	2.5%	2.8%	2.8%	2.9%	2.9%	2.9%	2.9%
TOTAL EXPENDITURES	5.1%	2.7%	3.7%	2.1%	2.4%	2.3%	2.2%	2.2%	2.2%	2.2%	2.7%

## **REVENUES**

### **Revenue Background**

Historical experience demonstrates Mountain View has a relatively volatile revenue base, primarily related to sales tax, with substantial variation in the amount of revenues collected over time. (See Attachment A for revenue and expenditure history for the past 10 fiscal years.) There is a strong correlation between economic conditions and the amount of revenues received. In addition to the overarching factors described in the Economic Climate Factors section, the City's revenue volatility is continually impacted by local factors.

Mountain View is 12 square miles, is conveniently located between San Francisco and San Jose and has several major highways and Freeways (101, 85 and 237) connecting the City to the Bay Area region. Mountain View is also a regional transportation hub and has transit stops for the Caltrain commuter train and VTA (Valley Transit Authority) light rail system. The City is over 98 percent built out, limiting the number of large vacant commercial sites available to attract major revenue-producing retailers.

Mountain View has also been unable to remain competitive, particularly with office/R&D development primarily due to zoning that limits intensity of development. Neighboring communities such as Sunnyvale and Santa Clara are offering higher intensity of development to meet the demands for companies seeking to expand. Limited available vacant land and development intensity restrict the number and type of business Mountain View is able to retain and attract; this affects both the depth of the economic base and diversity of revenue-producing companies. With a relatively shallow revenue base, there is less ability to absorb revenue declines resulting from harsh economic periods

Prior to the dot.com bust, manufacturing firms with local sales and leasing operations located in Mountain View contributed substantial amounts of annual sales tax revenue—approximately \$10.0 million in Fiscal Year 2001-02 (37.0 percent of total sales tax and 13.0 percent of General Operating Fund revenue). Many of these manufacturing jobs were relocated overseas during this recession and sales tax revenue for Fiscal Year 2007-08 for this category of business dropped to \$1.5 million. The next wave of businesses to locate in the City were software firms whose products are primarily sold on-line and exempted from sales tax by State law. The businesses currently generating sales tax for the City are a more fairly equal mix of retail and high-tech businesses, which provides a more stable revenue stream. Sales tax revenues for the City peaked at \$24.1 million in Fiscal Year 2000-01 when the primary generators were high-tech businesses—a reduction of \$8.2 million compared to the current fiscal year estimate of \$15.9 million.

The combination of the State Board of Equalization's (SBOE's) sales tax allocation rules, adverse rulings regarding allocations to cities, relocation of important sales tax producers to locations inside and outside the City, as well as repeated economic downturns or recessions resulting in higher unemployment, closure of businesses and lack of consumer confidence have caused significant volatility in sales tax revenues over the past two decades. It is important to note that sales tax revenue growth is just one type of revenue which City policies can influence. It is also the most volatile type of revenue currently received by the City.

General Operating Fund revenues were adopted at \$87.6 million for the current fiscal year and are currently estimated to be essentially on target with budget at \$87.5 million. Although revenues are estimated to be on target with adopted, Property Taxes, Utility Users Tax, Investment Earnings, Service Charges and Interfund Transfers are all below budget but offset by higher-than-anticipated revenue in all other categories. The estimate is an increase of \$1.1 million (1.3 percent) compared to the Fiscal Year 2009-10 audited, an indication the economic recovery has begun.

Fiscal Year 2011-12 revenues are projected to increase \$1.8 million (2.1 percent) overall compared to the Fiscal Year 2010-11 estimate, the net of increases in all sources excluding Intergovernmental, Service Charges, Miscellaneous and Loan Repayments.

Additional discussion of individual revenue sources can be found later in this report.

## **EXPENDITURES**

### **Expenditure Background**

#### **Fiscal Year 2010-11 Adopted Budget**

For Fiscal Year 2010-11, Council was faced with a \$4.6 million projected budget deficit and a multi-prong strategy was developed to realize a structurally balanced budget as follows (amounts in thousands):

<u>Strategy</u>	<u>Amount Achieved</u>
Operational Efficiencies (including elimination of 3.5 GOF positions)	\$1,289
Employee Compensation Cost Containment	790 (GOF; \$986 All Funds)
Increased Cost Recovery For Fee-Based Services	970
Service and Staffing Reductions (includes elimination of 9.75 GOF positions)	<u>1,535</u>
Total Reductions	<u>\$4,584</u>

As part of the operational efficiencies and expenditure reductions, a total of 15.0 FTE GOF positions were eliminated or unfunded, 2.5 FTE of which were filled. All employee groups participated in the cost containment by either foregoing a COLA, merit increases and/or increasing cost share of benefits. Over the past two decades, City staff has incorporated many operating efficiencies and is continually looking for additional measures to assimilate into City operations. But, after repeated reductions to positions with minimal impact to service levels, it was no longer possible to protect City services to the public from the negative actions necessary to balance the Fiscal Year 2010-11 Budget. Although these actions were necessary, they were not desirable as they resulted in a decrease in services to residents and increased workloads for employees. However, the City was able to achieve something that has eluded many other agencies, a structurally balanced budget that did not include the use of reserves.

#### Fiscal Year 2011-12

General Operating Fund expenditures were adopted at \$90.3 million<sup>2</sup> for the current fiscal year and are currently estimated at \$86.2 million, a savings of \$4.1 million. This is primarily the result of salary savings from vacant positions with additional savings from the underspending in various services and supplies accounts.

The Fiscal Year 2011-12 expenditures are projected at \$94.9 million<sup>2</sup>, an increase of \$4.6 million compared to the current fiscal year adopted budget. The \$4.6 million increase is primarily comprised of retirement and health-care benefit costs, with smaller increases for insurances, nondiscretionary increases and State budget impacts. The Fiscal Year 2011-12 structural deficit of \$2.6 million is recommended to be resolved with a combination of operational efficiencies, new revenue/fee increases and employee compensation cost containment. If the entire \$2.6 million structural deficit cannot be

eliminated with these strategies, it will be necessary to implement further staffing and service reductions as reflected on the "tiers" list attached to the GOF Narrative Budget Report.

There are limited-period items for most departments with recommended funding of \$910,800, \$548,900 of new funding to be provided from the current fiscal year carryover and \$361,900 of rebudgeted funding. Included in these items is \$2,500 recommended for United Way Silicon Valley to support 2-1-1 Santa Clara County with the understanding staff will consider this organization's request with the other nonprofit agencies in Fiscal Year 2012-13.

## **CONCLUSION**

Unfortunately, the City of Mountain View is again confronted with a projected deficit for the upcoming fiscal year and after repeatedly reducing expenditures through position eliminations, any added reductions will further affect service levels to the public and the City may not be able to avoid employee layoffs. Negotiations with several employee groups are currently occurring as all but the Mountain View Fire Fighters (MVFF) and Police Officers Association (POA) have contracts or resolutions that expire as of June 30, 2011. Recognizing the expenditure cost rise is almost fully attributable to employee compensation, the Budget Balancing Blueprint presented March 8, 2011 identified \$1.0 million in employee contributions to cost containment to achieve a structurally balanced budget.

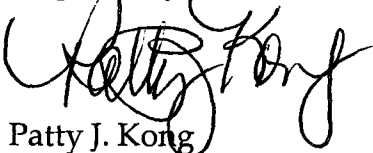
Regional economists frequently tout the resiliency and innovation of Silicon Valley and the expectation is that Silicon Valley will lead the State out of this recession. But the State government has severe challenges of its own that it has not been able to resolve and it is unclear what consequences this may have to local agencies. The economic challenges that lie ahead will not only test the citizens, nonprofits and businesses of Silicon Valley, but will also try the resiliency and innovation of its local governments. Although governmental agency recovery usually lags business recovery, City revenues have already begun what is widely thought to be a slow recovery and unemployment is projected to decline slowly but is not expected to return to prerecession levels until late 2013. This report is an initial step toward understanding the future challenges and informing decision-makers about the ability of the City to not just weather the immediate economic situation, but prepare itself for the next decade and beyond.

Revenue trends are closely monitored and compared to expenditures in the preparation of the budget, and each fiscal year appropriate budget proposals are developed based on projected revenues. As mentioned previously, the forecast years do not include COLAs for any employees. Upon achieving a structurally balanced Fiscal Year 2011-12 budget, without COLAs included, the deficits in the forecast years through

Fiscal Year 2018-19 will also be resolved. Staff is not recommending there be no COLAs for this extended period of time, but it will be difficult to recommend any meaningful increase in salaries while the growth in pension and health care costs exceed the growth in revenues.

Following is a detailed and graphic presentation of the forecast, summarizing the revenues, expenditures and the assumptions used to prepare the forecast.

Prepared by:



Patty J. Kong  
Finance and Administrative  
Services Director

Approved by:

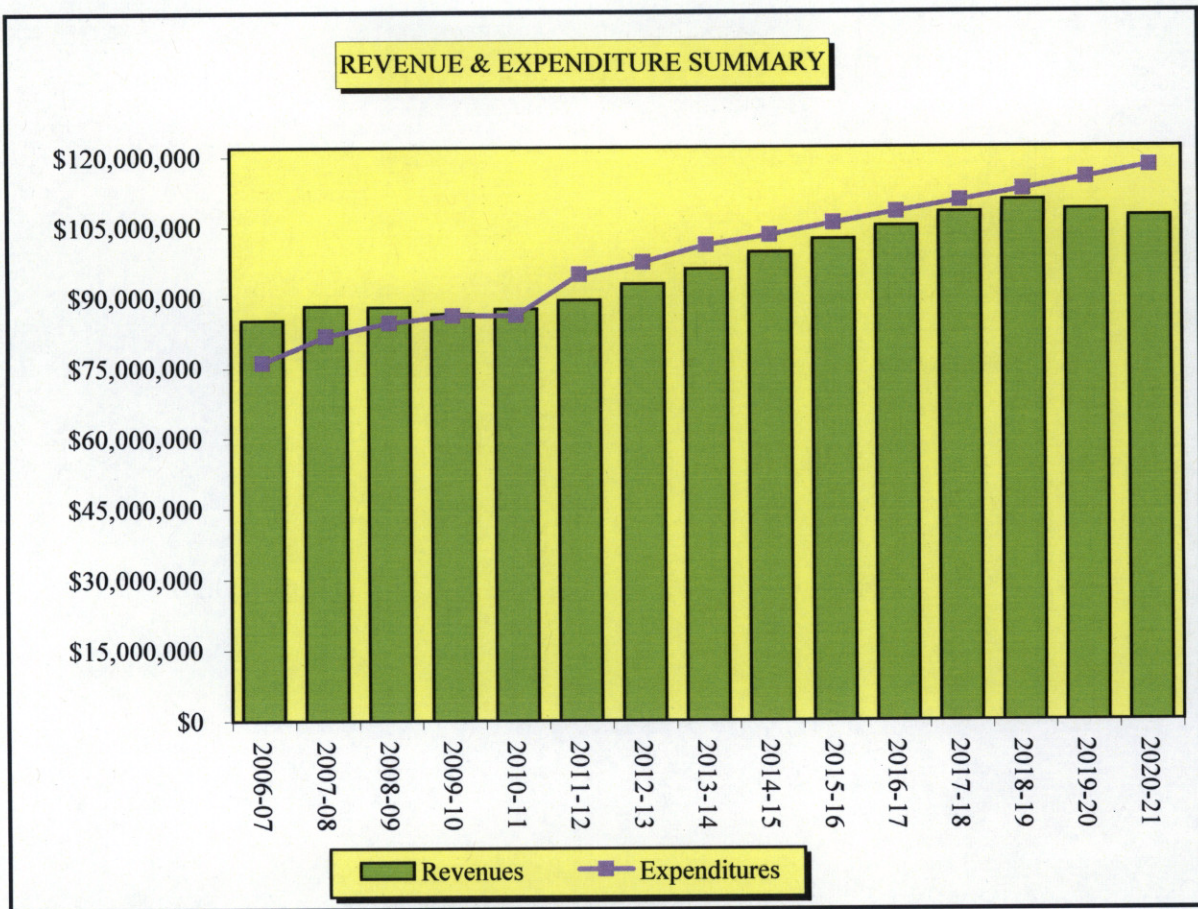


Melissa Stevenson Dile  
Interim City Manager

HMA/BUD  
530-05-03-11LRFF^

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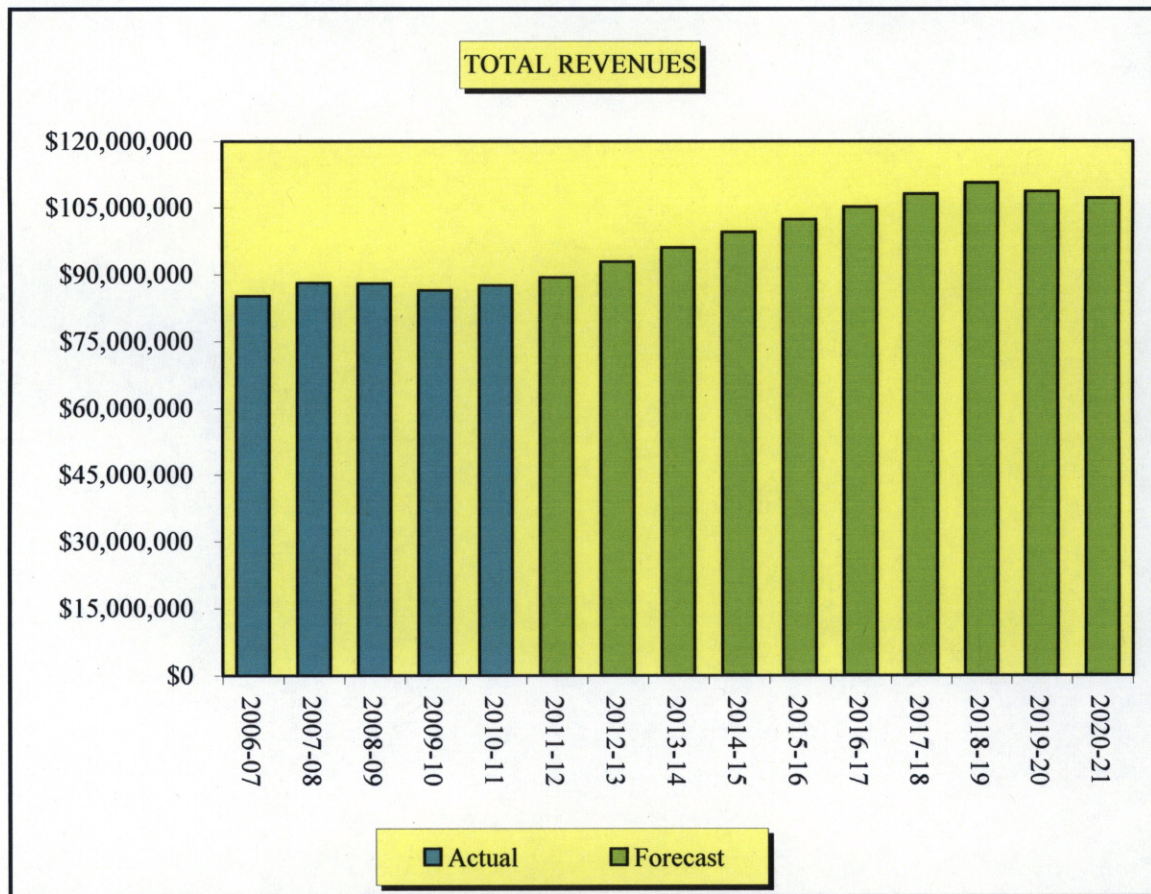
<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>Annual Expenditures</u>
2006-07	85,141,000	76,154,000
2007-08	88,140,000	81,816,000
2008-09	87,963,000	84,579,000
2009-10	86,416,000	86,136,000
2010-11 *	87,531,000	86,155,000
2011-12 **	89,360,000	94,857,000
2012-13	92,819,000	97,420,000
2013-14	96,003,000	101,038,000
2014-15	99,511,000	103,180,000
2015-16	102,316,000	105,678,000
2016-17	105,146,000	108,075,000
2017-18	108,045,000	110,475,000
2018-19	110,604,000	112,899,000
2019-20	108,591,000	115,373,000
2020-21	107,104,000	117,894,000

\* Estimated

\*\* Recommended

The Fiscal Year 2011-12 recommended expenditures and all forecast years do not include the projected operating budget savings.





<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	85,141,000	7.9%
2007-08	88,140,000	3.5%
2008-09	87,963,000	(0.2%)
2009-10	86,416,000	(1.8%)
2010-11 *	87,531,000	1.3%
2011-12 **	89,360,000	2.1%
2012-13	92,819,000	3.9%
2013-14	96,003,000	3.4%
2014-15	99,511,000	3.7%
2015-16	102,316,000	2.8%
2016-17	105,146,000	2.8%
2017-18	108,045,000	2.8%
2018-19	110,604,000	2.4%
2019-20	108,591,000	(1.8%)
2020-21	107,104,000	(1.4%)

\* Estimated

\*\* Recommended

## **PROPERTY TAXES**

Property taxes include the revenue generated from the City's share of the 1.0 percent levy assessed on the taxable value of real and personal property located within the City limits. The assessed value (AV) of secured real property that does not experience a change in ownership or is not subject to new construction is increased annually at a rate not to exceed the California Consumer Price Index (CCPI) or 2.0 percent, whichever is lower. However, if a property changes ownership, it is reassessed (up or down) at the current market value and new construction is initially valued at the cost of the construction. Unsecured tax on personal property such as computers and other equipment is assessed on the value of the property as reported annually to the County by the owning business.

### **SOURCES**

- Property tax assessed on secured real property
- Property tax assessed on unsecured personal property

### **ECONOMIC FACTORS**

- General economic conditions
- Proposition 13—determines methodology of tax application, limits the annual AV increase and sets the tax rate
- California Consumer Price Index (CCPI—October through October)
- Property demand, sales and values
- New development
- Timeliness of County processing new development and ownership transfers to the tax roll
- Proactive assessment reductions by the County Assessor
- Assessment appeals
- Availability of credit
- State legislation regarding tax allocation

## HISTORY

In 1992, as a way of solving its own budget shortfall, the State enacted legislation that shifted partial financial responsibility for funding education to local government. Property tax revenues belonging to cities, counties and special districts were shifted to the Educational Revenue Augmentation Fund (ERAF). The first year, Fiscal Year 1992-93, the City lost \$1.1 million. In Fiscal Year 1993-94, the amount was increased and continues on an annual basis (ERAF II). The amount changes every fiscal year based on the change in AV, totaling a net of approximately \$5.1 million for Fiscal Year 2010-11, including a small offset of other State revenue. The Fiscal Year 2004-05 State Budget included a two-year plan of additional payments to the State from municipal agencies, redevelopment districts and special districts (ERAF III). The City's GOF share of this revenue loss was \$1.4 million annually (\$2.9 million total). In July 2009, an emergency suspension of Proposition 1A was passed by the Legislature and signed by the Governor as part of the Fiscal Year 2009-10 State Budget package. This allowed the State to borrow 8.0 percent of the property tax revenue apportioned to cities, counties and special districts which requires repayment by June 2013 at 2.0 percent interest. The City elected to participate in the securitization program sponsored by the League of California Cities that allowed the City to sell its Proposition 1A receivable and receive the equivalent of its full share of property tax revenue without interest. This full amount was received in Fiscal Year 2009-10 and recorded as property taxes. The net cumulative loss to the GOF resulting from all ERAF shifts through Fiscal Year 2010-11 totals approximately \$60.0 million.

For the past two decades, housing activity has remained strong with short periods of uncertainty or declines related to the availability of housing stock, interest rates and the overall economy. During Fiscal Year 2008-09, the housing market collapsed, adjustable rate mortgages increased and mortgage holders were unable to afford the higher monthly payments. Foreclosures increased dramatically nationwide as homeowners defaulted on their mortgages. The ripple effects included significant losses in the stock market and property values, businesses tightening spending or closing, layoffs, an abrupt halt to construction activity and housing sales and a tightening of credit, many of which contributed to foreclosure rates. So far, Mountain View has been less affected by both foreclosures and falling home prices than other areas of the County and State.



## Foreclosure Statistics

<u>Year</u>	<u>Santa Clara County</u>	<u>Mountain View</u>	<u>% of County</u>
2008	6,214	40	0.6%
2009	5,006	46	0.9%
2010	<u>4,240</u>	<u>59</u>	1.4%
TOTAL	<u>15,460</u>	<u>145</u>	<u>0.9%</u>

## Median Price (of residential properties with a change in ownership—CIO) in Mountain View

<u>Year</u>	<u>Single-Family Home (SFH)</u>	<u>Number of SFH CIO</u>	<u>All Types<sup>3</sup></u>	<u>Number of All Types CIO</u>
2007	\$955,000	218	\$735,000	473
2008	\$963,250	200	\$773,500	384
2009	\$845,000	182	\$670,000	361
2010	\$892,000	267	\$702,500	545

From Fiscal Years 2002-03 through 2007-08, the County proactively reviewed the assessed values of commercial and residential properties sold or constructed during this period and reduced values for eligible properties. In the spring of 2008, because of the falling housing market, the County reviewed all residential properties sold during and after 2005 and compared the enrolled AV to the current market value. If the market value was higher than the enrolled AV, no change was made. If the market value was lower than the enrolled AV, the AV was temporarily reduced to the market value (Proposition 8 reduction). In addition, commercial and residential property owners submitted applications for value reductions and assessment appeals. These temporarily reduced the value of 204 properties in the City by a total of \$152.4 million and reduced property tax revenue by \$232,000 for Fiscal Year 2008-09. Additional Proposition 8 reductions were processed for Fiscal Years 2009-10 and 2010-11 as follows (dollars in thousands):

<u>Fiscal Year</u>	<u>Impacted General Fund Parcels</u>	<u>AV Reduction</u>	<u>Property Tax Loss</u>
2008-09	204	\$152,373	232
2009-10	2,071	272,457	414
2010-11	<u>3,464</u>	<u>548,128</u>	<u>833</u>
TOTAL	<u>5,739</u>	<u>\$972,958</u>	<u>1,479</u>

Each year, the County will review these properties until the AV can be restored to the level previous to the Proposition 8 reduction or assessment appeal. The level of AV restoration that has occurred is unknown, but probably not significant as the County continued processing new reductions through the preparation of the Fiscal Year 2010-11 tax roll.

Effective with the Fiscal Year 2004-05 State Budget, the State ceased remitting to cities and counties the "backfill" vehicle in-lieu fee (VLF) revenue lost as a result of the tax rate reduction from 2.0 percent to 0.65 percent assessed on the market value of the vehicle. To replace this lost revenue, the State permanently increased the property tax allocation to cities and counties by the amount that would have been received in Fiscal Year 2002-03 before reducing the VLF rate. This property tax in lieu of VLF amount has been permanently added to each city and county's property tax allocation and will grow or decline with the overall annual change in assessed value of property in each agency's jurisdiction.

In total, Fiscal Year 2010-11 property tax is estimated at \$1.2 million (4.7 percent) below the adopted budget. The majority of this is a decline in secured value, resulting from a combination of the negative 0.237 percent annual CCPI adjustment, Proposition 8 reductions, foreclosures and assessment appeals submitted by property owners.

In addition, supplemental property taxes are \$295,000 below the adopted budget. As a result of the changes in ownership at lower assessed values than the tax roll and the County processing a two-year backlog of assessment appeals, there has been a significant amount of refunds to property owners eligible for a reduction in value. For Fiscal Year 2010-11, the County has withheld the August through March supplemental property tax payments to local agencies in order to avoid the risk of an overdistribution of supplemental taxes that would be required to be repaid in Fiscal Year 2011-12. However, the County estimates they will be allocating approximately \$15.0 million County-wide before the end of the fiscal year and the City should receive approximately \$120,000.

## FORECAST

The Fiscal Year 2011-12 projected secured property tax revenue is based on the Fiscal Year 2010-11 tax roll adjusted for the following:

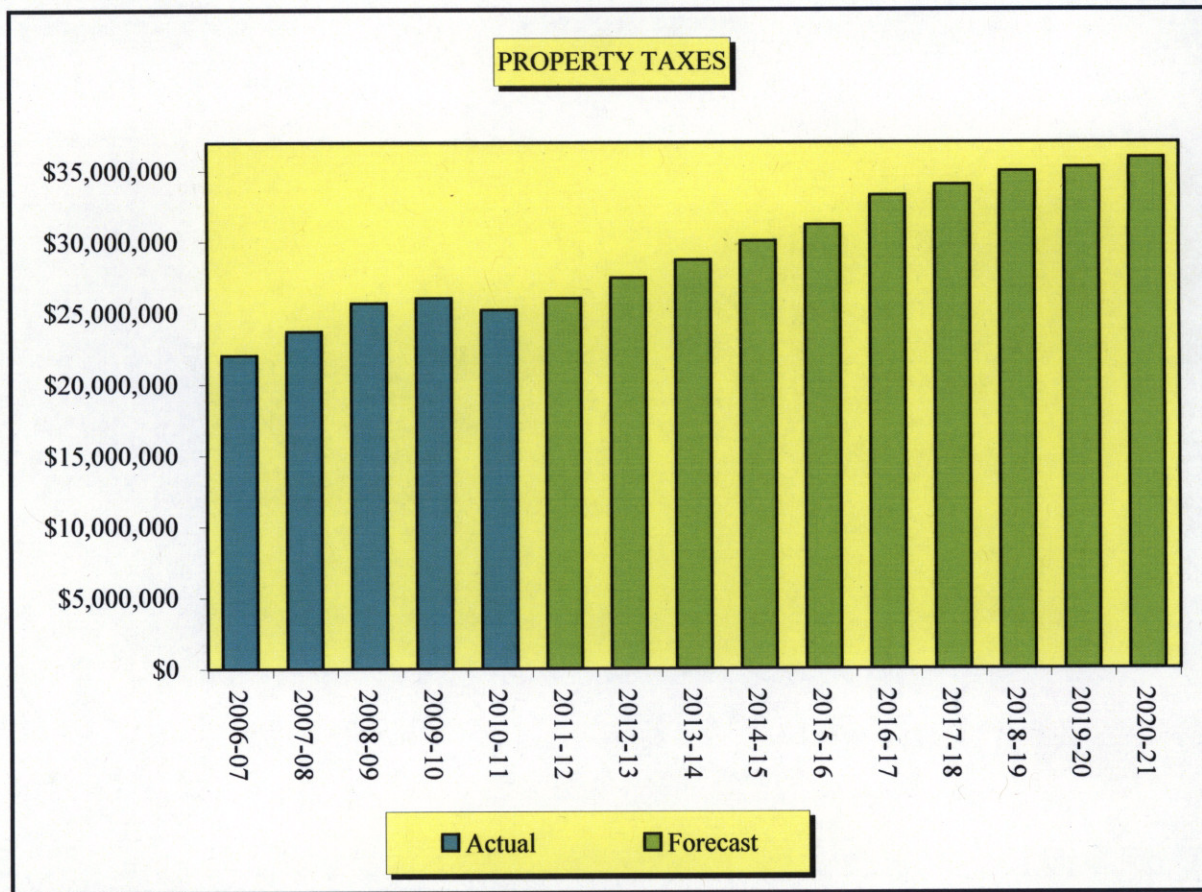
- A 0.753 percent CCPI increase to the AV of all residential property and all commercial property with no change in ownership after 2004;
- A 6.0 percent loss in value to all commercial property with a change in ownership or constructed after 2004;
- Value changes related to property transfers and sales prior to the lien date; and
- Increased AV projection related to new development.

Compared to the current fiscal year estimate, these factors resulted in an overall 2.9 percent projected growth in General Operating Fund secured property tax revenue.

The change in CCPI from October 2010 through October 2011 will be the factor used for the annual change in AV for Fiscal Year 2012-13. Since the establishment of the July 1, 2010 tax roll, the County Assessor's Office has discussed with local agencies that residential property values have leveled off, but that the City will likely see a decline in commercial property values.

For the remaining forecast years, total secured property tax is projected with net growth ranging from 1.9 percent to 6.9 percent annually. These average annual increases include an annual change in AV based on the CCPI, ownership transfers and new development based on projects in the pipeline. Fiscal Year 2012-13 includes a 4.0 percent additional commercial property value decline for properties with a change in ownership or constructed after 2004. In Fiscal Year 2016-17, it is projected the Revitalization Authority will have accumulated sufficient funds to repay its outstanding debt and, thereafter, the property taxes will be allocated to the other taxing entities including the General Fund.

Unsecured property tax revenue remained fairly level from Fiscal Years 2004-05 through 2007-08. In Fiscal Year 2008-09, this revenue increased by 6.7 percent to \$1.7 million and grew by 13.5 percent in Fiscal Year 2009-10. However, as anticipated in the budget, Fiscal Year 2010-11 revenue has declined. Fiscal Year 2011-12 is projected to remain at approximately the same level as the current fiscal year actuals, Fiscal Year 2012-13 is projected to grow 6.0 percent and the following six fiscal years increase by 1.0 percent to 2.0 percent annually in anticipation of newly purchased equipment. The last two fiscal years decline 10.0 percent and 5.0 percent annually as a result of a projected downturn in the economy.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	22,027,000	4.2%
2007-08	23,681,000	7.5%
2008-09	25,647,000	8.3%
2009-10	26,017,000	1.4%
2010-11 *	25,185,000	(3.2%)
2011-12 **	25,987,000	3.2%
2012-13	27,428,000	5.5%
2013-14	28,666,000	4.5%
2014-15	30,007,000	4.7%
2015-16	31,142,000	3.8%
2016-17	33,210,000	6.6%
2017-18	33,993,000	2.4%
2018-19	34,930,000	2.8%
2019-20	35,241,000	0.9%
2020-21	35,918,000	1.9%

\* Estimated

\*\* Recommended

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## **SALES TAX**

The City of Mountain View is allocated 1.0 percent of every sales dollar subject to sales tax which is reduced by 25.0 percent as discussed below. In the late 1990s, sales tax from commercial/industrial businesses generated a greater amount of sales tax than retail businesses, an approximate 1.5:1 ratio. During the current decade, as a result of relocations and the recession, the ratio of sales tax generated by commercial/industrial and retail businesses have changed and is currently at approximately a 1:3 ratio of commercial/industrial to retail.

### **SALES TAX SOURCES**

- Retail sales of tangible personal property to individuals and other businesses
- Use and excise taxes on business consumption of personal property
- State and County pooled sales tax allocated by population

### **ECONOMIC FACTORS**

- Business expansion, reduction or relocation
- State of the economy
- Purchasing patterns
- State Board of Equalization allocation decisions
- Level of business-to-business sales
- Technological changes

### **HISTORY**

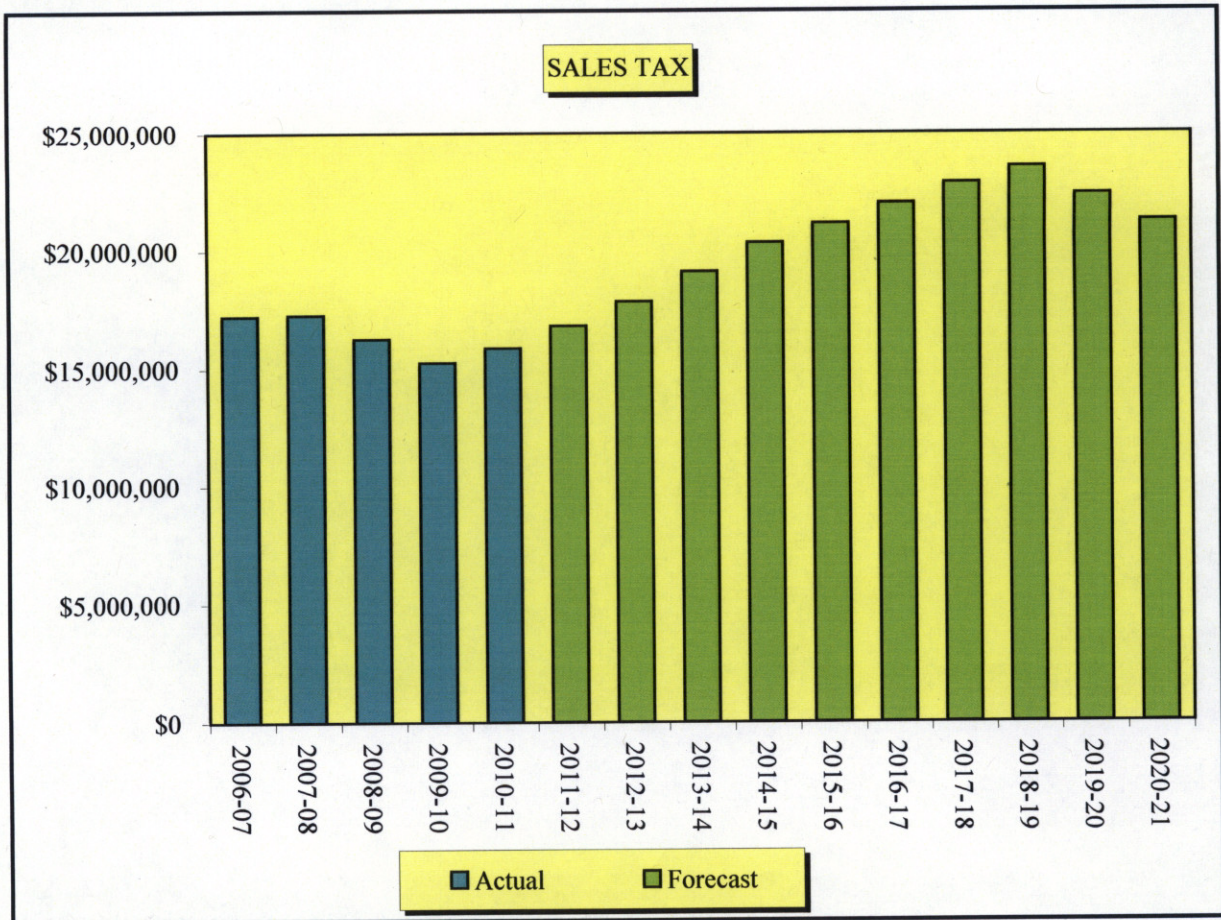
Since the early 1990s, sales tax has been an extremely volatile revenue source, reaching an all-time record high of \$24.1 million in Fiscal Year 2000-01, with a precipitous decline to \$14.2 million in Fiscal Year 2003-04 and growing steadily through Fiscal Year 2007-08 to \$17.3 million. These variations typically occur as businesses move in and out of the City, companies modify reporting and/or sales methods and the economy changes. As a result of the severe economic crisis that erupted in 2008 and the ensuing decline in consumer and business-to-business spending over the following two fiscal years, revenue fell in excess of \$2.0 million (11.8 percent) to \$15.2 million. During the current fiscal year, sales tax has started showing modest signs of recovery and is estimated to grow 4.1 percent compared to the prior fiscal year.

In March 2003, the voters approved Proposition 57, the authority for the State fiscal recovery bond funding mechanism. Effective July 1, 2004, in accordance with the proposition, the State shifted 25.0 percent of local agency sales and use tax to the State to be used for debt service payments on the fiscal recovery bonds issued to balance the State's budget (Deficit Bonds). The amount of sales tax shifted is replaced on a

dollar-for-dollar basis with property tax revenue. This shift (Triple Flip) will continue for 15 years or until the Deficit Bonds are fully repaid.

## **FORECAST**

Fiscal Year 2011-12 sales tax revenue is projected with a net growth of 5.9 percent compared to the current fiscal year estimate recognizing continuing recovery, the closure of several businesses as a result of the San Antonio Shopping Center redevelopment and the relocation of several businesses out of the City. The following seven fiscal years include an overall growth factor ranging from 4.0 percent to 7.0 percent annually netted against the impacts from the known relocations of businesses in and out of the City and a projection for the sales tax increase from the San Antonio Center redevelopment. The last two forecast years are reduced 5.0 percent annually as a result of a projected economic downturn.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	17,223,000	7.5%
2007-08	17,273,000	0.3%
2008-09	16,264,000	(5.8%)
2009-10	15,242,000	(6.3%)
2010-11 *	15,861,000	4.1%
2011-12 **	16,802,000	5.9%
2012-13	17,837,000	6.2%
2013-14	19,093,000	7.0%
2014-15	20,310,000	6.4%
2015-16	21,122,000	4.0%
2016-17	21,967,000	4.0%
2017-18	22,845,000	4.0%
2018-19	23,531,000	3.0%
2019-20	22,355,000	(5.0%)
2020-21	21,237,000	(5.0%)

\* Estimated

\*\* Recommended

## OTHER TAXES

Other Taxes is comprised of Transient Occupancy Tax (TOT), Business License Tax and Utility Users Tax (UUT).

### OTHER TAXES SOURCES

- TOT is a 10.0 percent tax assessed on hotel and motel occupancies. Any occupancy by a government employee or a stay exceeding 30 consecutive days is exempt from the tax. This tax is self-reported on a quarterly basis by hotels and motels within the City limits, and these businesses are audited by the City on a periodic basis.
- Business License Tax is assessed on all businesses known to be operating in Mountain View and billed annually. The tax rate varies by type of business.
- Utility Users Tax is a 3.0 percent tax assessed on the sale of all commercial and residential intrastate telecommunications and all electricity and gas consumption.

### ECONOMIC FACTORS

- Transient Occupancy Tax: Number of hotel rooms, room rate, occupancy rate and number of exemptions.
- Business License Tax: Number and types of businesses licensed by the City and the applicable tax rate.
- Utility Users Tax: Customer base, service consumed and level of consumption and price of the commodity.

### HISTORY

Transient Occupancy Tax: The tax rate was last modified in June 1991 with an increase from 8.0 percent to 10.0 percent. Occupancy rates throughout the County continued to increase during the 1990s until 2001, when business travel dropped precipitously after the dot-com bust and did not begin to recover until the first quarter of 2004. Through June 2008, TOT continued to improve each quarter in comparison to the same quarter of the prior fiscal year. As a result of the deteriorating economy and the contraction of business and consumer spending, occupancy declined and Fiscal Year 2008-09 TOT revenue fell \$1.1 million (26.6 percent). Occupancy began to recover in the spring of 2010, has continued into the current fiscal year and is currently estimated to be 19.6 percent above the low point of this recession.



Business License Tax: This revenue does not change significantly from year to year as the tax rate remains unchanged. Fluctuation in the number of businesses does not significantly change annual revenue because of the low annual tax.

Utility Users Tax: Utility Users Tax is calculated on the consumer cost of the energy (gas and electricity) and intrastate telecommunication services utilized. The tax revenue fluctuates with the cost, customer usage and/or customer base. In the late 1990s, new commercial and residential development, the high occupancy rate of commercial buildings and demand for multiple phone lines increased the customer base. Then, beginning in Fiscal Year 2001-02, as a result of the dot-com bust, businesses closed and commercial properties became vacant, reducing the customer base and resulting in less than anticipated revenues. In addition, in Fiscal Year 2001-02, the price of natural gas declined and customers reduced their usage of electricity in response to the energy crisis. From Fiscal Years 2005-06 through Fiscal Year 2008-09, revenues from all three utilities grew as the level of development increased and vacancy rates declined. The City completed a compliance review of telecommunication companies by the end of Fiscal Year 2006-07, which resulted in retroactive audit payments and an increase in ongoing revenues related to previous incorrect reporting or noncompliance by telecommunications providers. Fiscal Year 2009-10 UUT revenue from all three utilities declined compared to the prior fiscal year audited. The portion related to taxation of energy is believed to be related to increasing commercial occupancy. The telecommunication portion of the decline may be the result of the migration of commercial telecommunications to technology that was not taxed or not captured.

A November 2010 ballot measure was approved by the voters which broadened the base to include all telecommunications services in order to treat all customers equally. Telecommunications providers will be assessing the UUT in accordance with the amended ordinance effective March 2011.

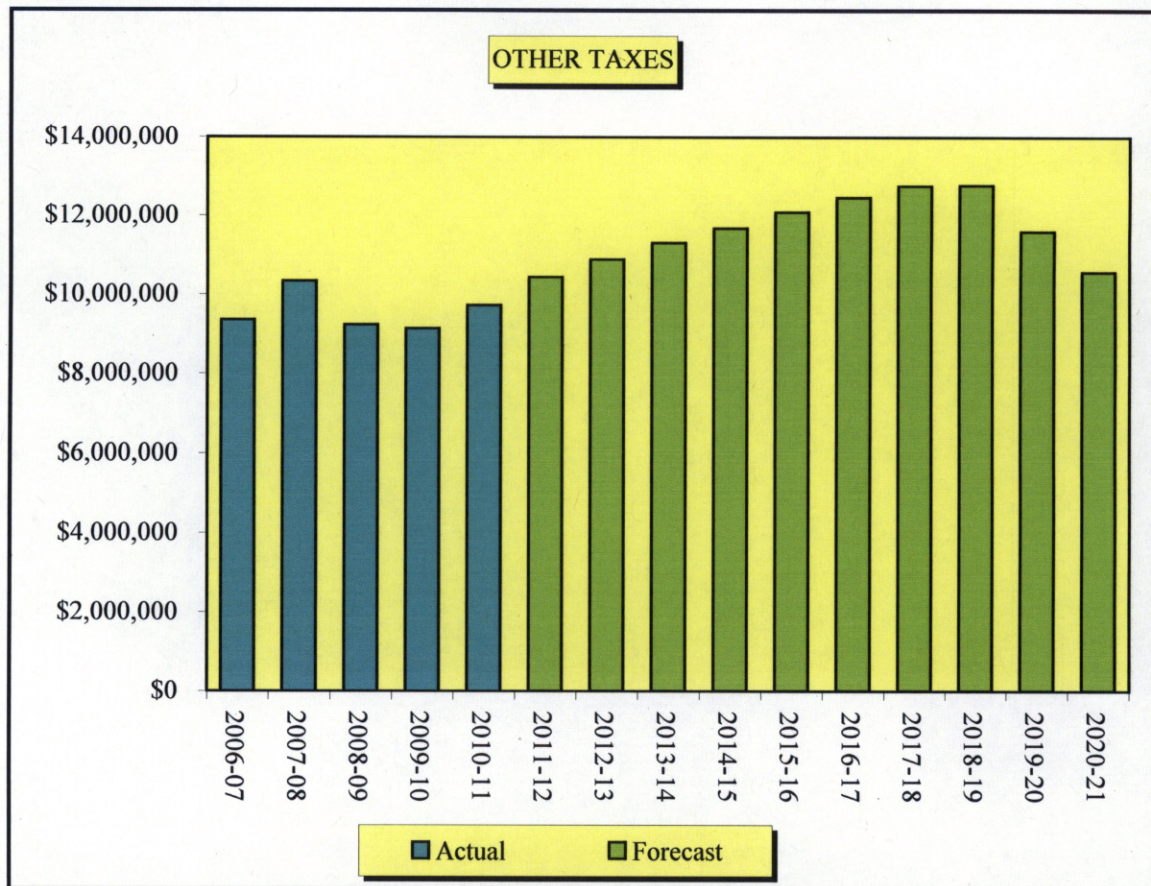
## **FORECAST**

Transient Occupancy Tax: The recovery is anticipated to continue and, historically, the first couple years of recovery in TOT occur at a more rapid pace. Therefore, the budget projection for Fiscal Year 2011-12 includes an 11.6 percent increase compared to the Fiscal Year 2010-11 estimate. The following six forecast years continue to grow at a slower pace and the last three forecast years begin to decline as a downturn in the economy is projected.

Business License Tax: The license revenue for Fiscal Year 2011-12 and the remainder of the forecast period is projected at approximately the same level as the current fiscal year.

Utility Users Tax: UUT revenue from all sources for Fiscal Year 2011-12 is projected to increase 5.0 percent, compared to the 2010-11 fiscal year estimate. The primary

component of this growth is anticipated to be generated from the expansion of the taxable telecommunication services as approved by the voters. Offsetting this is a decline resulting from a multi-year billing error by a major provider. The telecommunications provider has corrected their billing system and the City began receiving reduced UUT payments in October 2010. Conservative growth is expected to continue during the remaining years of the forecast period as the economy recovers, but the growth may actually be greater depending on the results of the UUT Ordinance amendment.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	9,357,000	17.6%
2007-08	10,338,000	10.5%
2008-09	9,242,000	(10.6%)
2009-10	9,144,000	(1.1%)
2010-11 *	9,723,000	6.3%
2011-12 **	10,444,000	7.4%
2012-13	10,888,000	4.3%
2013-14	11,318,000	3.9%
2014-15	11,684,000	3.2%
2015-16	12,088,000	3.5%
2016-17	12,459,000	3.1%
2017-18	12,752,000	2.4%
2018-19	12,770,000	0.1%
2019-20	11,600,000	(9.2%)
2020-21	10,570,000	(8.9%)

\* Estimated

\*\* Recommended

## **USE OF MONEY AND PROPERTY**

Use of Money and Property is comprised of investment earnings and revenue from rents and leases of City property. Investment earnings are generated from the General Fund's share of the City's pooled investment portfolio. Rents and Leases revenue is generated from rental properties and lease agreements.

### **USE OF MONEY AND PROPERTY SOURCES**

- Monthly interest allocation generated by the City's pooled investment portfolio
- Leased and rented properties, including:
  - Crittenden site
  - North Charleston site
  - Charleston East site
  - Shoreline Amphitheatre
  - Recology
  - Center for the Performing Arts
  - Michaels at Shoreline
  - Community School of Music and Arts (CSMA)
  - CVS (parking structure, retail space)
  - Savvy Cellar Wines, Inc.
  - Bank of America (ATM)
  - United Pentecostal Church of Mountain View (Rock Church—limited-period)
  - Wireless Telecommunication Providers

### **ECONOMIC FACTORS**

- Economy
- Interest rates
- Portfolio balance
- City Investment Policy
- Lease agreements

### **HISTORY**

Investment Earnings: Over the past decade, part of the City's financial strategy was to build reserves in anticipation of budget constraints in order to generate additional



revenue in the form of investment earnings and to maintain sufficient funds to weather any further significant declines in revenues. The Federal Reserve aggressively lowered short-term interest rates throughout 2001, reducing the Federal funds rate from 5.5 percent to 1.75 percent, and further reducing rates in 2002 and 2003 to 1.0 percent. By June 2006, the Federal Reserve had gradually increased short-term interest rates to 5.25 percent. Then, beginning in September 2007, in an effort to combat the ripple effect of the subprime lending crisis, the Federal Reserve once again began aggressively lowering short-term interest rates, reducing the rate to 0.25 percent by December 2008, where it remains. These and other rate reductions have impacted the City's yield on reinvestments, one of the main factors contributing to the decline in investment earnings.

Rents and Leases: Over time, the City has creatively developed City-owned properties and negotiated lease agreements which generate long-term revenue for the General Operating Fund. These leases and the revenue generated become even more important during economic downturns as they do not immediately fluctuate with the economy and most include annual inflationary increases. In addition to the lease revenue, this development of City property has increased the value of the surrounding area and in some instances drawn new business into the City.

In 1995 and 1996, the City negotiated and signed ground lease agreements for the North Charleston and Crittenden sites, respectively. Subsequently, Google Inc. (Google) signed an assignment and assumption of these ground leases. As allowed in the ground leases, the market rent includes fixed annual increases and is revalued every 10 years. In April 2005, the Charleston lease was revalued and the revenue declined to the base rent guaranteed in the lease. In December 2006, the Crittenden lease revaluation was completed and the new rent was established at approximately 2.0 percent lower than the prior year rent. In August 2007, the City completed negotiations for the long-term ground lease of the Charleston East site for office development. The lease became effective February 2008 and will generate lease revenue of approximately \$1.2 million for Fiscal Year 2010-11. In April 2011, the City executed a long-term (52 years) ground lease with Google for the other portion of the Charleston East site. The lease will be effective in June 2011 and Google will remit \$30.0 million in prepaid rent to the City.

In late Fiscal Year 2005-06, Council approved the amended and restated lease between the City and SFX Entertainment, Inc. (operating company of Live Nation, Inc.) for the lease of the Shoreline Amphitheatre. The terms of the lease eliminated the percentage rent structure and replaced it with a fixed amount of \$200,000 per month for the concert season (nine months), a total of \$1.8 million annually.

In September 2007, Longs Drugs (now CVS) opened in the Bryant Street parking structure and began paying the City the negotiated monthly lease rent. The annual

lease revenue is \$252,600 (\$212,600 to the GOF and \$40,000 to the Parking District to offset maintenance costs).

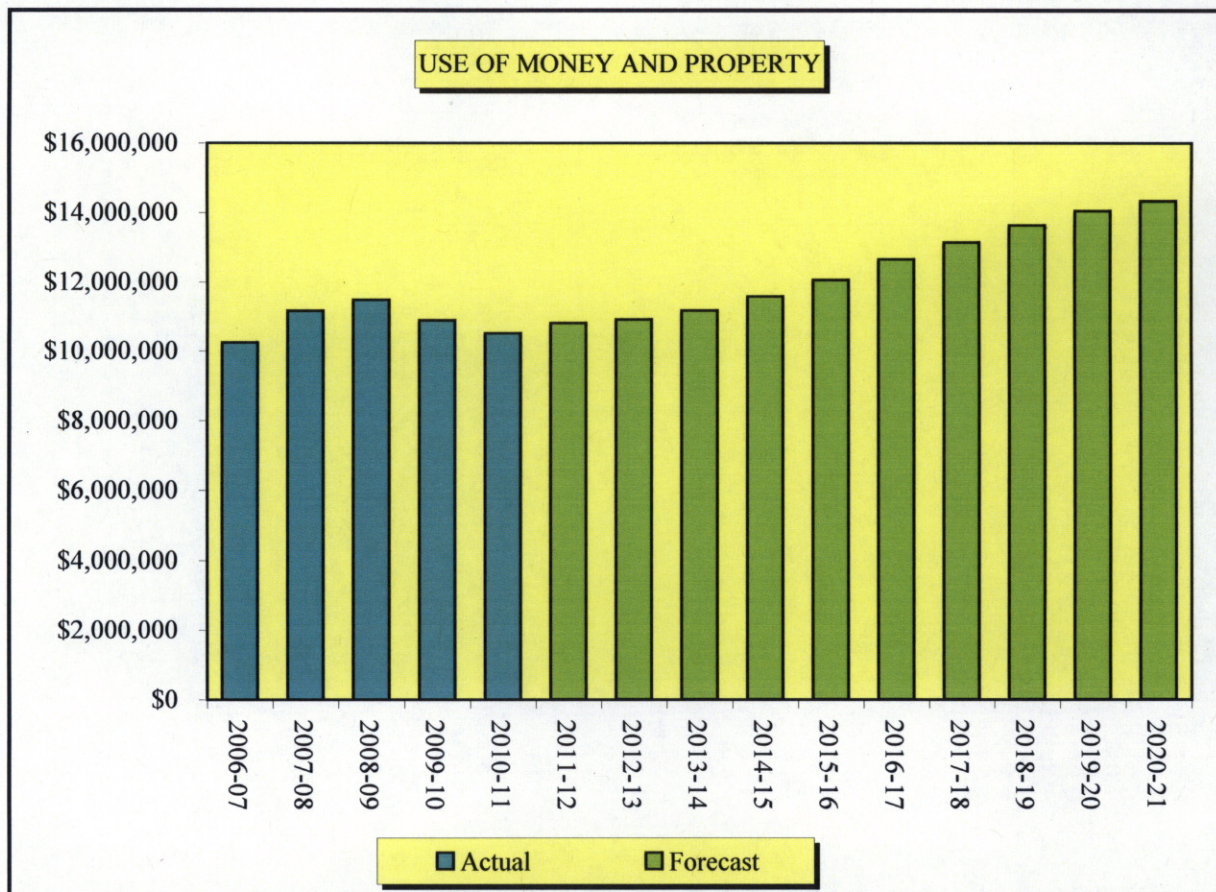
In 2009, the City completed negotiations with the United Pentecostal Church, Inc. for the purchase of the property on Escuela Avenue and then leased the entire property back to the Church for a limited period. The lease includes an increase each January to a more market-rate level. For Fiscal Year 2010-11, the City will receive \$42,000.

In May 2010, Savvy Cellars opened to the public at the Centennial Plaza Train Depot and, in accordance with the lease, will pay \$29,700 of annual lease revenue to the City for the 2010-11 fiscal year.

## **FORECAST**

Investment Earnings: The projection for Fiscal Year 2011-12 is based on an assumption maturing investments will be reinvested at lower rates, resulting in the average portfolio yield decreasing to 2.43 percent. The Federal funds rate is projected to remain at 0.25 percent and the Local Agency Investment Fund (LAIF) pooled rate is projected at an average of 0.5 percent. Although yields on all allowed investment instruments are projected to begin increasing in Fiscal Year 2012-13, the average portfolio yield is not anticipated to begin growing until Fiscal Year 2014-15 as the lower-yielding instruments mature and the funds are reinvested at higher rates. The average portfolio yield is then projected to begin rising, reflecting increasing yields on all allowed investment instruments. Investment yields are projected to remain level for four fiscal years and then decline in the last two forecast years in response to a projected economic decline.

Rents and Leases: Three of the leases with Google include 3.0 percent or 4.0 percent annual increases and each lease will have a revaluation during the forecast period. The newest Google lease will also generate revenues to the City which is incorporated as part of the budget balancing strategy for Fiscal Year 2011-12. The City will also receive \$1.8 million annually from SFX Entertainment, Inc. for the lease of the Shoreline Amphitheatre through Fiscal Year 2016-17 and 2.0 percent annual contractual increases begin the following year. The lease agreements with CVS, CSMA and Savvy Cellars all have contractual increases which become effective during the forecast period. The remaining lease agreements will remain essentially level. Fiscal Year 2011-12 is the final (partial) year of lease revenue (\$21,000) from the United Pentecostal Church.



<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	10,242,000	13.9%
2007-08	11,165,000	9.0%
2008-09	11,480,000	2.8%
2009-10	10,881,000	(5.2%)
2010-11 *	10,514,000	(3.4%)
2011-12 **	10,811,000	2.8%
2012-13	10,912,000	0.9%
2013-14	11,170,000	2.4%
2014-15	11,582,000	3.7%
2015-16	12,054,000	4.1%
2016-17	12,647,000	4.9%
2017-18	13,134,000	3.9%
2018-19	13,628,000	3.8%
2019-20	14,045,000	3.1%
2020-21	14,326,000	2.0%

\* Estimated

\*\* Recommended

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## **OTHER REVENUE**

Other revenue is comprised of Franchise Fees, Licenses and Permits, Fines and Forfeitures, Intergovernmental, Service Charges, Miscellaneous and Interfund Revenue/Transfers.

### **OTHER REVENUE SOURCES**

- The franchisees are required to pay Franchise Fees as compensation to the City for the use of City property while providing a commercial service to Mountain View businesses and residents.
- Licenses and Permits and Service Charge revenues are generated from private development activity, recreation programs and other provided services.
- Fines and Forfeitures are generated from citations issued by the City and the California Highway Patrol.
- Intergovernmental includes all revenues derived from other governmental agencies, the largest of which is motor vehicle license fees (VLF).
- Miscellaneous Revenue includes revenue from a variety of sources.
- Interfund Revenues are reimbursements to the General Operating Fund from other funds and capital improvement projects for services provided. Interfund Transfers are transfers from other funds.

### **ECONOMIC FACTORS**

- State of the economy
- Franchise agreements and revenues generated by franchisees
- Level of development activity
- Actions by the State Legislature
- Level of service provided by General Operating Fund staff to other funds and capital improvement projects
- State and Federal regulations, legislation and funded programs



## HISTORY

Franchise Fees: Franchise revenue generated from gas and electricity usage steadily increased through Fiscal Year 2001-02 as a result of significant commercial and residential development, then declined in Fiscal Year 2002-03 due to the high level of commercial office vacancies resulting from the dot-com bust. Beginning in Fiscal Year 2003-04, annual revenue began to increase as vacant commercial space and new development was utilized.

In accordance with the agreement between the City and the City's refuse collector, Recology, a monthly service fee is owed the City. This fee includes a portion for the exclusive right to perform this activity and a portion is attributable to other solid waste services. This revenue began declining in Fiscal Year 2001-02 as a result of the decreased demand for refuse services resulting from the amount of vacant commercial space, and continued to fall through Fiscal Year 2003-04. However, during Fiscal Years 2004-05 through 2006-07, revenue increased approximately 9.0 percent annually, a reflection of the increase in the customer base, migration to larger-size containers and increases in refuse service charges. Fiscal Years 2008-09 and 2009-10 declined as a result of residential and commercial customers reducing services due to the recession.

Both of these Franchise Fee sources have been negatively impacted by ongoing conservation and the fee paid by Recology has also been negatively impacted by recycling efforts.

Licenses and Permits and Service Charges: This revenue source experienced significant growth during the 1990s as a result of the high level of development. Then revenues experienced a sharp decline in Fiscal Years 2001-02 and 2002-03 when the economy faltered, and there were no substantial commercial development projects. Development-related revenue began to recover in Fiscal Year 2003-04. In Fiscal Year 2006-07, Building Services was separated from the General Operating Fund in order to better facilitate tracking and accounting. Since Fiscal Year 2007-08, revenue in this category (not related to Building Services) declined as the housing market collapsed and construction activity contracted sharply. With adoption of the 2010-11 fiscal year budget, Council approved the following which were projected to generate approximately \$900,000 in additional revenue:

- Recreation Services Cost Recovery Policy and increased fees in accordance with the newly adopted policy.
- Cost of service study for Police services and related new or increased fees.
- Reviewed and increased recovery levels for services provided by other departments.

The bulk of this revenue will be received for spring and summer recreation programming and after the fiscal year has ended, staff will evaluate the results.

Intergovernmental Revenue: During the past decade, many revenues from the State have been reduced or eliminated with VLF having the greatest changes. The VLF was reduced by the State Legislature in Fiscal Year 1997-98 with the loss to local agencies offset by a "backfill" payment from the State's General Fund.

With the adoption of the Fiscal Year 2004-05 State Budget, the VLF backfill was permanently replaced with property tax which increases annually by the annual change in assessed value.

Interfund Revenues/Transfer: The cost allocation plan is updated on a biennial basis in order to calculate the value of the services provided to other funds and capital projects by the General Operating Fund. Staff is awaiting the results of the most recent update.

## **FORECAST**

Franchise Fees: The Fiscal Year 2011-12 projected and the next seven years of the forecast period includes annual increases of 2.2 percent to 3.1 percent. Cable Franchise revenue have historically been recorded in the Cable Fund and the net of public access operations transferred to the General Operating Fund. Beginning in Fiscal Year 2011-12, Cable Franchise revenues will be budgeted as General Fund Franchise revenue in lieu of a transfer from the Cable Fund. The forecast does not include any changes that could result from the potential issue of the RFP for the refuse hauler contract, rate restructuring or the zero waste plan.

Licenses and Permits: The forecast years are anticipated to grow as the level of development activity grows.

Service Charges: The additional revenue budgeted for the 2010-11 fiscal year is projected to remain at the same level for Fiscal Year 2011-12. The remaining forecast years include incremental increases.

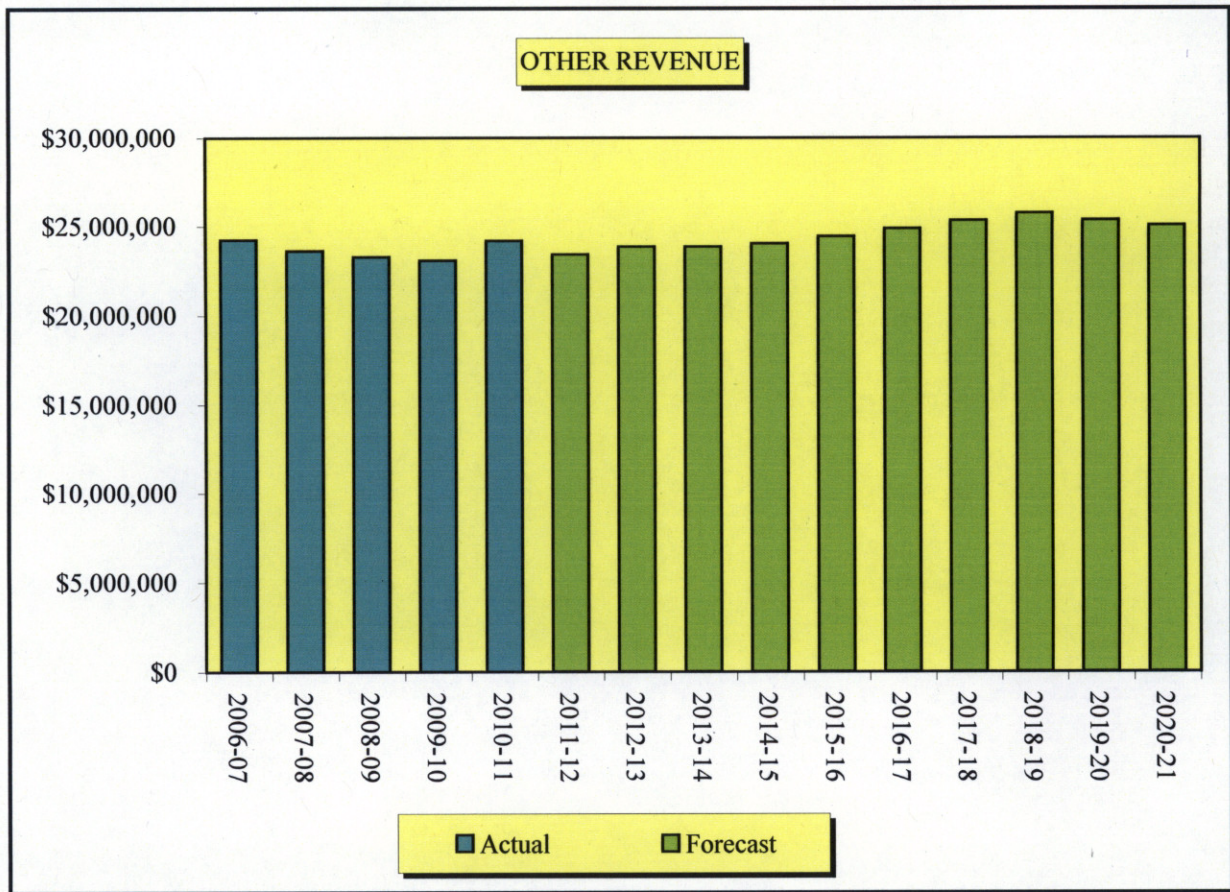
Intergovernmental Revenue: Fiscal Year 2011-12 projected revenue is lower than the 2010-11 fiscal year estimate, primarily as the 2010-11 fiscal year includes one-time grant funds received. The remaining forecast years include small incremental increases for VLF.

Interfund Revenue/Transfer: For Fiscal Year 2011-12, this revenue is projected at approximately the same level as the 2010-11 fiscal year and most of the remaining forecast period includes small incremental increases. Fiscal Year 2013-14 declines 1.0 percent as a result of the loss of administrative reimbursement from the

Revitalization Authority when the District sunsets and Fiscal Year 2014-15 declines 1.0 percent as a result of the exhaustion of the PERS Reserve.

The last two years of the forecast period include declines in the Other Revenue category as a result of the projected downturn in the economy.





<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	24,232,000	6.5%
2007-08	23,623,000	(2.5%)
2008-09	23,270,000	(1.5%)
2009-10	23,072,000	(0.9%)
2010-11 *	24,188,000	4.8%
2011-12 **	23,422,000	(3.2%)
2012-13	23,860,000	1.9%
2013-14	23,862,000	0.0%
2014-15	24,034,000	0.7%
2015-16	24,438,000	1.7%
2016-17	24,863,000	1.7%
2017-18	25,321,000	1.8%
2018-19	25,745,000	1.7%
2019-20	25,350,000	(1.5%)
2020-21	25,053,000	(1.2%)

\* Estimated

\*\* Recommended

## **LOAN REPAYMENTS**

This revenue source reflects the annual repayment of loan obligations from other funds.

### **LOAN REPAYMENT SOURCES**

- Shoreline Regional Park Community
- Revitalization Authority

### **ECONOMIC FACTORS**

- Financial condition of the paying funds

### **HISTORY**

Shoreline Regional Park Community (Shoreline Community): The General Fund made a series of loans to the Shoreline Community beginning in Fiscal Year 1985-86, which eventually totaled \$17.8 million. The loans were combined together into a consolidated loan during Fiscal Year 1988-89. Although this revenue is one-time in nature, it will not be fully repaid until Fiscal Year 2015-16 and is currently included as operating revenue.

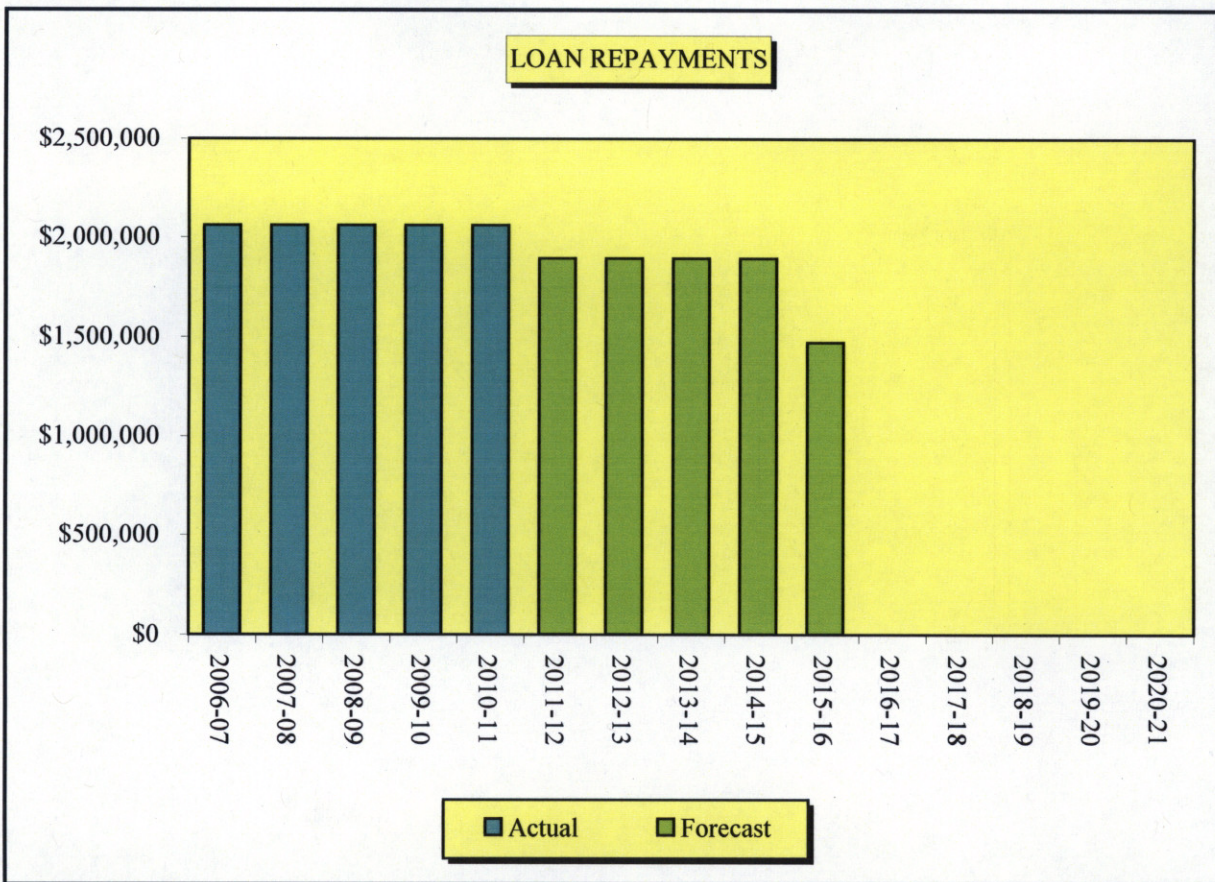
Revitalization Authority (Authority): The General Fund also made a series of loans to the Authority in 1989 to fund the Castro Street improvements. In the Fiscal Year 1993-94 budget, the Council approved deferring the loan repayments a minimum of three years at no interest and extending the payoff until Fiscal Year 2013-14. Although the financial condition of the Authority subsequently improved, loan repayments continued to be deferred until Fiscal Year 2002-03. At that time, the loan to the Authority was reamortized to 2019, the deadline for debt to be repaid by the Authority, at a 6.0 percent interest rate with an annual loan payment in the amount of \$165,500.

### **FORECAST**

The Shoreline Community loan repayment remains at the same annual amount through Fiscal Year 2014-15 and the final payment the following fiscal year is approximately \$1.5 million.

With the Governor's proposal to eliminate redevelopment districts, the Council approved the transfer of the Bryant Street and Franklin Street properties to the General Fund in exchange for the outstanding balance of the Revitalization loan. There will be no future debt repayments.





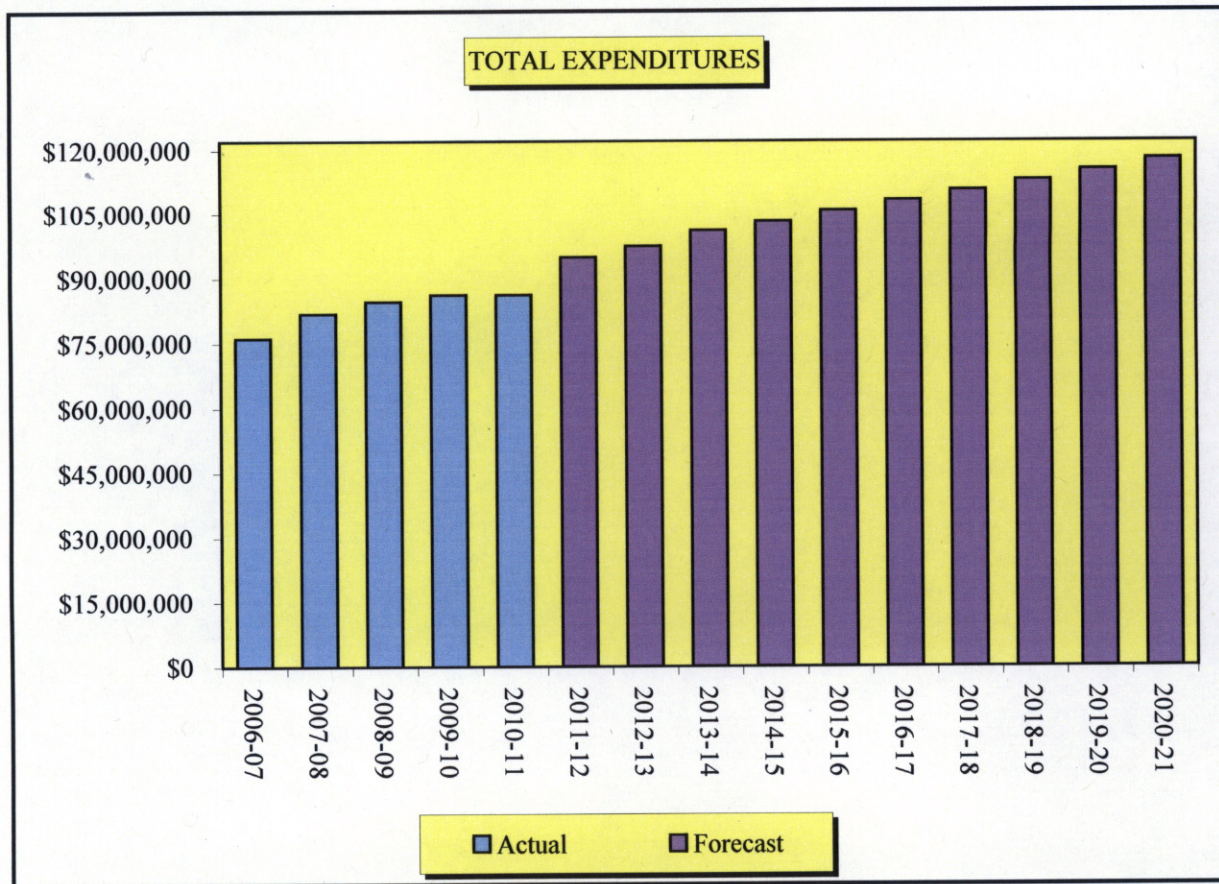
<u>Fiscal Year</u>	<u>Annual Revenues</u>	<u>% Change</u>
2006-07	2,060,000	0.0%
2007-08	2,060,000	0.0%
2008-09	2,060,000	0.0%
2009-10	2,060,000	0.0%
2010-11 *	2,060,000	0.0%
2011-12 **	1,894,000	(8.1%)
2012-13	1,894,000	0.0%
2013-14	1,894,000	0.0%
2014-15	1,894,000	0.0%
2015-16	1,472,000	(22.3%)
2016-17	0	(100.0%)
2017-18	0	0.0%
2018-19	0	0.0%
2019-20	0	0.0%
2020-21	0	0.0%

\* Estimated

\*\* Recommended

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<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	76,154,000	8.2%
2007-08	81,816,000	7.4%
2008-09	84,579,000	3.4%
2009-10	86,136,000	1.8%
2010-11 *	86,155,000	0.0%
2011-12 **	94,857,000	10.1%
2012-13	97,420,000	2.7%
2013-14	101,038,000	3.7%
2014-15	103,180,000	2.1%
2015-16	105,678,000	2.4%
2016-17	108,075,000	2.3%
2017-18	110,475,000	2.2%
2018-19	112,899,000	2.2%
2019-20	115,373,000	2.2%
2020-21	117,894,000	2.2%

\* Estimated

\*\* Recommended

The Fiscal Year 2011-12 recommended expenditures and all forecast years do not include the projected operating budget savings.

## **SALARIES AND BENEFITS**

The Salaries and Benefits category makes up the largest component of General Operating Fund expenditures and represents all personnel-related costs. The City is obligated by law to meet and confer with bargaining units and also meets with other employee organizations on matters of employee compensation. There are currently four recognized bargaining groups in the City: the Police Officers Association (POA sworn and nonsworn), the Mountain View Professional Firefighters Union (MVFF Local 1965), the Service Employees International Union (SEIU Local 715) and the EAGLES (Management, Professional and certain Front-Line positions). The remaining employees include certain unrepresented Management, Professional and Front-Line positions. The outcome of negotiations with each group is a major factor in salary and benefit costs.

### **CATEGORIES**

- Salaries
- Wages
- Overtime
- Other Pays (e.g., holiday-in-lieu, out-of-class, etc.)
- Medical/Dental premiums
- Retirees' Health
- Public Employees Retirement System (PERS)
- Other Benefits (e.g., life insurance, long-term disability, FICA, etc.)
- Workers' Compensation
- Unemployment Insurance

### **HISTORY**

A precipitous drop in revenues occurred during Fiscal Years 2002-03 through 2005-06, and 58.1 full-time equivalent (FTE) positions were eliminated from the General Operating Fund. General Operating Fund revenues began to substantially improve in Fiscal Year 2005-06, allowing the City to modestly restore service levels most impacted by reductions. Between Fiscal Years 2005-06 and 2008-09, 18.5 positions were added to



the General Operating Fund budget (excluding 9.5 positions converted from contract and adjusted for moving Building Services out of the GOF). The most recent recession caused declining revenues in Fiscal Years 2008-09 and 2009-10. The current fiscal year revenue is estimated to be only 1.3 percent higher than the prior fiscal year. Balancing the budget for Fiscal Years 2009-10 and 2010-11 required additional reductions, including elimination/unfunding of 29 positions.

Containing the growth of employee compensation costs was part of the multi-prong strategy for structurally balancing the Fiscal Year 2010-11 budget. All employee organizations met with the City and agreed to cost containment measures totaling \$790,000 (\$986,000 for all funds). This was achieved in a variety of ways, including foregoing or reducing COLAs, foregoing merit increases and/or PERS cost share.

## **FORECAST**

The \$2.6 million deficit projected for Fiscal Year 2011-12 is the result of significant increases in both retirement and health benefit costs. Fiscal Year 2011-12 retirement costs are increasing 38.1 percent compared to Fiscal Year 2010-11 adopted as a result of increased PERS rates incorporating a portion of the losses sustained in the PERS portfolio during Fiscal Years 2007-08 and 2008-09, and actuarial assumption changes.

PERS actuarials anticipate an average annual yield of 7.75 percent. However, during Fiscal Years 2007-08 and 2008-09, the PERS portfolio yield was -5.1 percent and -24.0 percent, respectively. When evaluating the losses of these two fiscal years, it is important to remember that since the actuarial assumed a 7.75 percent annual yield, the difference between the actual losses and the assumed return were actually -12.85 percent and -31.75 percent, respectively. These losses are being spread over three fiscal years, beginning in Fiscal Year 2011-12 and are reflected in the increased costs. Another factor for the increased rates for Fiscal Year 2011-12 is the change in actuarial assumptions. The key actuarial assumption changes are as a result of longer life spans and earlier retirement for both safety and miscellaneous groups. The Fiscal Year 2011-12, Fiscal Year 2012-13 and Fiscal Year 2013-14 rates were calculated by PERS and PERS rates for the subsequent fiscal years were provided by an outside consultant.

All employee groups contribute their employee share of PERS costs plus a "cost share" of a portion of the City's contribution for the increased costs related to enhanced retirement benefits.

	Fiscal Year <u>2011-12</u>	Fiscal Year <u>2012-13</u>	Fiscal Year <u>2013-14</u>
Total City Contribution—Safety (1)	30.599	31.800	35.900
Total City Contribution—Miscellaneous (2)	19.914	21.000	23.900

- (1) Safety Employee Cost Share:  
Mountain View Fire Fighters—4.158 percent, plus an additional 3.2 percent in Fiscal Year 2011-12;  
Fire Managers—4.358\* percent;  
Police Officers Association—4.148 percent; and  
Police Managers—4.148 percent.
- (2) Miscellaneous Employee Cost Share:  
Miscellaneous—2.50 percent;  
EAGLES—2.50 percent;  
Service Employees International Union—3.25 percent; and  
Non-Police Officers Association—1.50 percent.

\*Contingent upon a vote of the employees to continue the preretirement death benefit.

The health-care providers submitted the Fiscal Year 2011-12 rates to be effective August 2011 and (for active employees) they result in a 16.2 percent increase in Kaiser rates, and an 11.9 percent increase in Health Net rates and no increase for dental rates compared to the estimated 10.0 percent increase for Kaiser and Health Net and a 5.0 percent increase for dental. There are no COLAs assumed throughout the forecast, but step increases, merit increases and benefit cost increases are included throughout the forecast period. As detailed on the following chart, the next three years of the forecast period include significant increases to PERS rates.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	58,454,000	6.6%
2007-08	63,374,000	8.4%
2008-09	68,091,000	7.4%
2009-10	69,549,000	2.1%
2010-11 *	68,238,000	(1.9%)
2011-12 **	75,529,000	10.7%
2012-13	77,646,000	2.8%
2013-14	80,670,000	3.9%
2014-15	82,389,000	2.1%
2015-16	84,382,000	2.4%
2016-17	86,225,000	2.2%
2017-18	88,055,000	2.1%
2018-19	89,890,000	2.1%
2019-20	91,757,000	2.1%
2020-21	93,652,000	2.1%

\* Estimated

\*\* Recommended

## **SERVICES AND SUPPLIES**

The Services and Supplies category makes up the second largest component of General Operating Fund expenditures and represents costs of operations.

### **CATEGORIES**

- Materials and Supplies
- Maintenance and Operations
- Utilities
- Professional/Technical Services
- Training, Conference and Travel
- Miscellaneous Expenditures

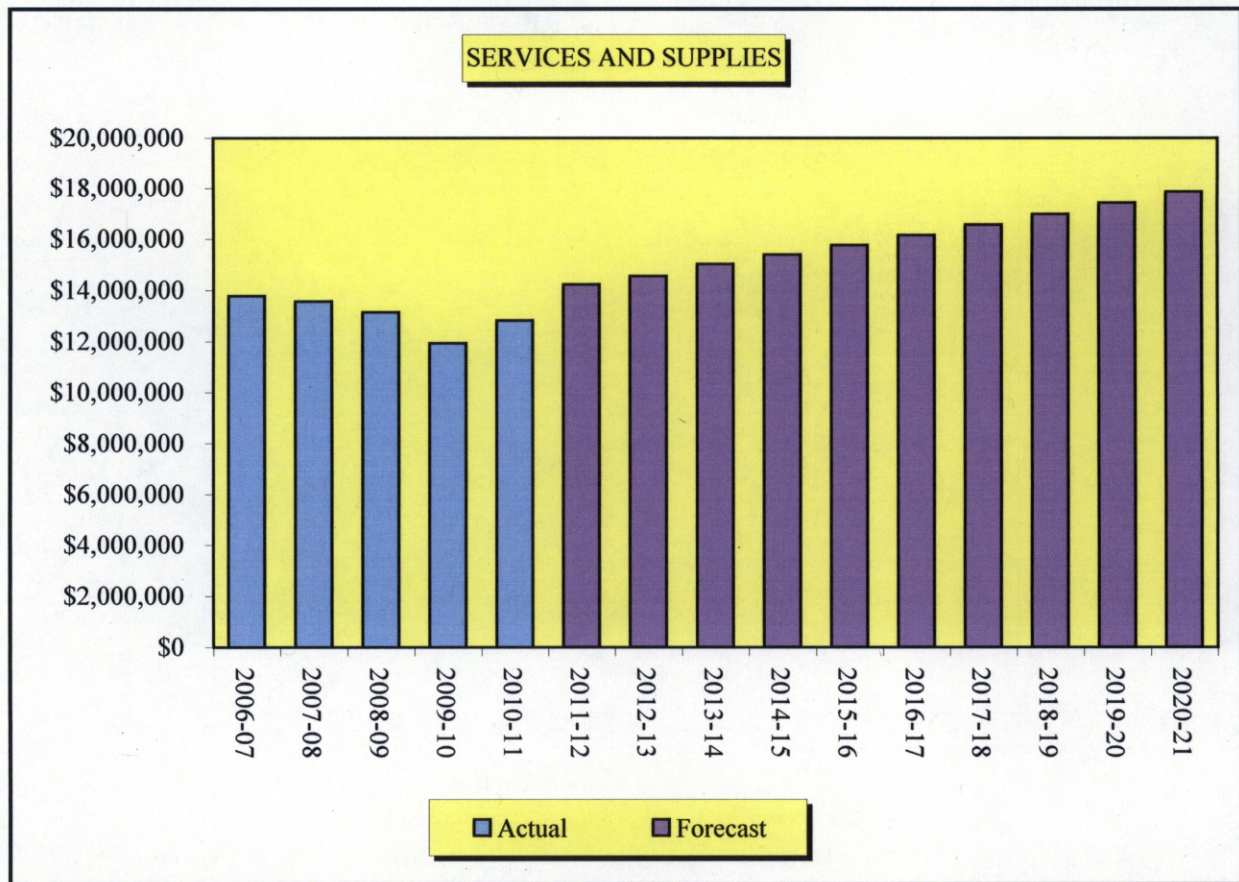
### **HISTORY**

For Fiscal Years 2002-03 through 2005-06, the Council approved net reductions totaling 7.2 percent over the four-year period and Fiscal Year 2006-07 was adopted at approximately the same level as the prior fiscal year. As the Fiscal Year 2007-08 Adopted Budget allowed for some necessary increases to this expenditure category, the total for services and supplies increased 4.8 percent over the prior fiscal year. For Fiscal Year 2008-09, this category would have increased by 4.8 percent (excluding the impact of the Council-approved conversion of the outsourced IT function to City staff). Costs for Fiscal Years 2009-10 and 2010-11 Adopted Budgets were decreased a total of 4.1 percent.

### **FORECAST**

This category is increasing 3.3 percent compared to the Fiscal Year 2010-11 Adopted Budget due to State budget impact of booking fees and projected Utility and Fleet Services cost increases. The remainder of the forecast period includes annual inflationary increases ranging between 2.4 percent and 3.2 percent.





<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	13,782,000	9.7%
2007-08	13,567,000	(1.6%)
2008-09	13,155,000	(3.0%)
2009-10	11,933,000	(9.3%)
2010-11 *	12,828,000	7.5%
2011-12 **	14,224,000	10.9%
2012-13	14,561,000	2.4%
2013-14	15,028,000	3.2%
2014-15	15,387,000	2.4%
2015-16	15,755,000	2.4%
2016-17	16,152,000	2.5%
2017-18	16,561,000	2.5%
2018-19	16,981,000	2.5%
2019-20	17,413,000	2.5%
2020-21	17,857,000	2.5%

\* Estimated

\*\* Recommended

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## **CAPITAL OUTLAY AND EQUIPMENT REPLACEMENT**

The Capital Outlay and Equipment Replacement category represents the new and replacement equipment needs of the City. Although, individually, Capital Outlay is one-time in nature, the City includes this category in the Operating Budget to reflect capital needs on an annual basis. In addition, annual contributions to the Equipment Replacement Fund are made by the General Operating Fund, Building Services, Shoreline Golf Links, Revitalization Authority, Parking District, Shoreline Regional Park Community, Water, Wastewater, Solid Waste Management and Fleet Maintenance Funds based on the equipment used by each of those operations. Equipment replacement expenses are accounted for in the Equipment Replacement Reserve Fund.

### **CATEGORIES**

- Capital Outlay
- Equipment Replacement

### **HISTORY**

Capital Outlay: Since Fiscal Year 1993-94, the annual expenditures have grown as a result of an increased level of technology and related equipment, an increase in the number and quality of safety vehicles, and the addition of hybrid vehicles to the fleet. However, beginning in Fiscal Year 2002-03, constraints on capital outlay were implemented as the economy weakened and it was necessary to reduce the General Operating Fund budget. The Fiscal Year 2002-03 Adopted Budget included an ongoing \$100,000 reduction to capital outlay and the Fiscal Year 2003-04 Adopted Budget included a further reduction of \$200,000, leaving the ongoing annual funding at \$200,000. Fiscal Years 2006-07 through 2008-09 included a \$200,000 increase to bring the total annual funding back to \$400,000. As a result of the once again declining economy and the operating budget deficit, the Fiscal Year 2009-10 annual funding was again reduced to \$200,000 and has remained at that level for Fiscal Year 2010-11.

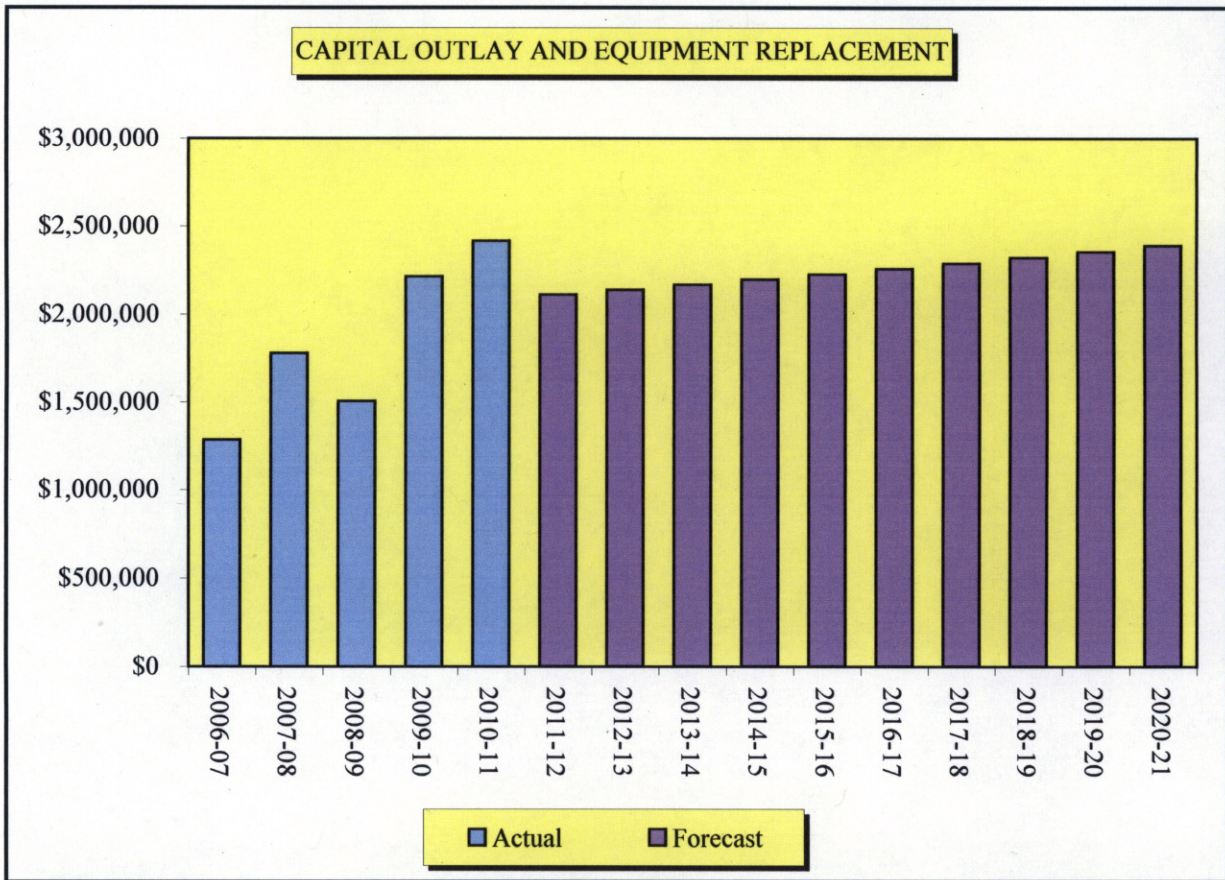
Equipment Replacement: The Equipment Replacement Reserve was initially funded in Fiscal Year 1992-93 with year-end General Fund carryover. Since that time, the Council has approved transfers to this fund from the year-end General Fund carryover to supplement the General Operating Fund's share of funding. Beginning in Fiscal Year 1994-95, the General Operating Fund increased funding by \$200,000 annually until it was fully funding its share in Fiscal Year 2001-02. However, due to economic circumstances, the General Operating Fund's contribution to Equipment Replacement annual funding was reduced \$500,000 in Fiscal Year 2002-03 and an additional \$500,000 annual reduction in funding was included for Fiscal Year 2003-04.

A review of the cost methodologies, useful life assumptions and annual contributions was completed in early Fiscal Year 2005-06, and staff concluded annual funding would need to be restored in order to financially sustain the replacement schedule. During Fiscal Years 2006-07 through 2007-08, this funding was increased a total of \$800,000 and remained at a \$1.2 million annual contribution from the General Operating Fund for Fiscal Years 2008-09 and 2009-10. As a result of the economy and the projected operating budget deficit, the annual funding level for the Fiscal Year 2010-11 Adopted Budget was reduced \$200,000 to \$1.0 million. Previously, the difference in the amount funded directly from the GOF and the GOF's full share of funding came from the fiscal year end balance or carryover. However, beginning in Fiscal Year 2009-10, the full share of funding is budgeted and the supplemental amount over \$1.2 million is funded by projected budget savings.

## **FORECAST**

Capital Outlay: The Fiscal Year 2011-12 Adopted Budget remains at the \$200,000 annual funding level and continues at this level throughout the remainder of the forecast period.

Equipment Replacement: The Fiscal Year 2011-12 budget and the remainder of the forecast period includes the full funding for the GOF's share of equipment replacement.



<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	1,284,000	65.7%
2007-08	1,777,000	38.4%
2008-09	1,504,000	(15.4%)
2009-10	2,213,000	47.1%
2010-11 *	2,415,000	9.1%
2011-12 **	2,112,000	(12.5%)
2012-13	2,139,000	1.3%
2013-14	2,168,000	1.4%
2014-15	2,197,000	1.3%
2015-16	2,227,000	1.4%
2016-17	2,258,000	1.4%
2017-18	2,289,000	1.4%
2018-19	2,322,000	1.4%
2019-20	2,355,000	1.4%
2020-21	2,390,000	1.5%

\* Estimated

\*\* Recommended

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## SELF-INSURANCES

The Self-Insurances category represents the General Operating Fund's share of insurance costs accounted for in the Internal Service Funds. Special Funds and the Enterprise Funds also contribute to self-insurances.

### CATEGORIES

- General Liability
- Retirees' Health Program
- Vision Care

### HISTORY

General Liability: In Fiscal Year 1993-94, the City joined a liability insurance pool (ACCEL) with other select cities for the provision of \$19.0 million coverage in excess of the then-current \$1.0 million self-insured retention (SIR) for total coverage of \$20.0 million. Beginning in Fiscal Year 2001-02, funding of liability insurance was spread to all funds which receive a benefit from this insurance coverage. Previously, the cost was funded entirely by the GOF.

Retirees' Health Insurance Program: The medical premiums for eligible retirees are paid by the Retirees' Health Fund. During the prior decade, the GOF's share was funded by the GOF operating budget and also through investment earnings generated by the Retirees' Health Reserve balance. Although the City was not yet required to fund this liability, Council has allocated funds to this reserve since Fiscal Year 1992-93.

In 2004, the Government Accounting Standards Board (GASB) published Statement No. 45—Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions—which requires the City report the annual cost of this liability in the City's Comprehensive Annual Financial Report (CAFR) beginning in Fiscal Year 2007-08. An actuarial report was completed and for Fiscal Years 2006-07 and 2007-08, the calculated normal cost (NC) portion for current employees was budgeted in all the affected funds. In addition, for Fiscal Year 2006-07, Council approved affected funds to contribute their proportionate share of the unfunded actuarial accrued liability (UAAL). Beginning in Fiscal Year 2008-09, the NC was calculated per employee and included in the budget for salaries and benefits. The Fiscal Years 2006-07 through 2008-09 UAAL amortization contributions for the GOF were funded by the General Non-Operating Fund. Beginning with Fiscal Year 2009-10, the UAAL amortization contributions are included in the General Operating Fund.



In February 2008, Council approved an agreement authorizing the City's participation in the PERS-administered California Employees Retiree Benefit Trust (CERBT) Fund. In February 2009, the City began depositing the funds into the CERBT. An update of the actuarial valuation was prepared for Fiscal Year 2009-10, resulting in a significant increase in the AAL and required annual fund contributions.

Vision Care: Vision care claims for both retirees and employees and reimbursement for safety glasses submitted by current employees are paid by the Employee Benefits Fund. The annual cost of this program is allocated to all operating funds.

## **FORECAST**

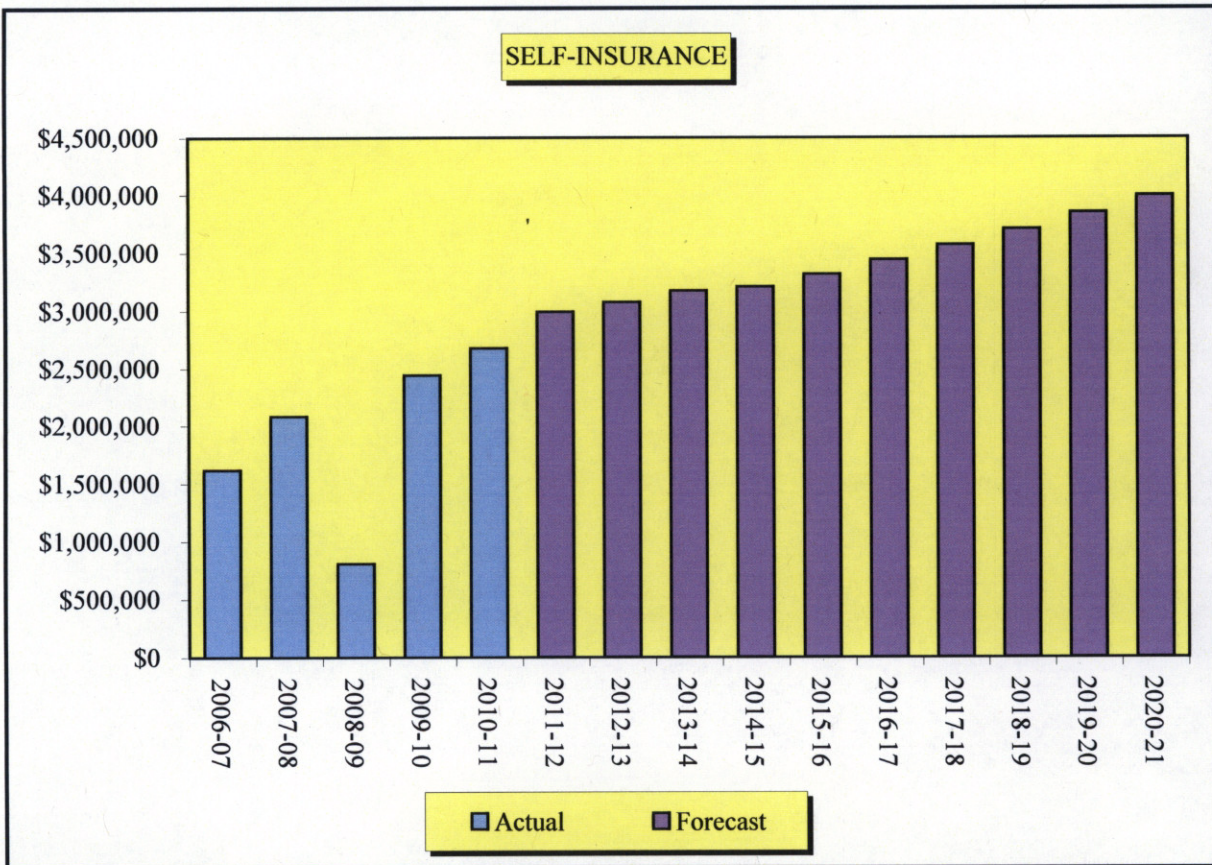
General Liability: The Fiscal Year 2011-12 through 2020-21 projections are based on maintaining the minimum policy level for reserve balances. The total coverage includes a \$1.0 million self-insurance retention (SIR), \$4.0 million of coverage above the SIR through the ACCEL joint powers authority and an additional \$45.0 million of purchased excess coverage for a total of \$50.0 million. For Fiscal Year 2011-12, the GOF will contribute \$1.1 million, a 27.5 percent increase resulting from a higher level of claims and steadily increasing insurance costs. The remainder of the forecast period includes annual increases ranging between 3.9 percent and 5.0 percent annually.

Retirees' Health Insurance Program: An update of the actuarial valuation was prepared as of July 2010 which incorporated asset smoothing into the analysis. The \$1.9 million UAAL amortization for the forecast years is included in the GOF budget and projected to be funded from budget savings.

The deposit of annual funds into the CERBT will continue for the balance of the annual required contribution.

Vision Care: The GOF's contribution is based on the projected amount required to fund vision coverage for employees and retirees and safety glasses for employees.





<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	1,618,000	33.8%
2007-08	2,082,000	28.7%
2008-09	809,000	(61.1%)
2009-10	2,441,000	201.7%
2010-11 *	2,674,000	9.5%
2011-12 **	2,992,000	11.9%
2012-13	3,074,000	2.7%
2013-14	3,172,000	3.2%
2014-15	3,207,000	1.1%
2015-16	3,314,000	3.3%
2016-17	3,440,000	3.8%
2017-18	3,570,000	3.8%
2018-19	3,706,000	3.8%
2019-20	3,848,000	3.8%
2020-21	3,995,000	3.8%

\* Estimated

\*\* Recommended

For Fiscal Years 2006-07 and 2007-08 the normal cost (NC), as well as the retirees health amortization of the unfunded actuarial accrued liability (UAAL) were adopted as self insurance expenditures. Beginning in Fiscal Year 2008-09 the NC is recorded in salaries and benefits with each budgeted position.

## **DEBT SERVICE**

The Debt Service category funds the debt obligations of the General Fund to the Debt Service Funds.

### **CATEGORIES**

- City Hall and Center for the Performing Arts

### **HISTORY**

City Hall/Center for the Performing Arts: In Fiscal Year 1988-89, the City issued debt to fund the construction of a new City Hall building and Center for the Performing Arts. The City refinanced this debt in Fiscal Year 1992-93, reducing annual debt service payments an average of \$230,000 and a total savings of approximately \$5.5 million over the life of the debt.

The Council approved the allocation of \$5.0 million from the Fiscal Year 1999-2000 General Fund carryover and an additional \$5.0 million from the Fiscal Year 2000-01 carryover to call a portion of the outstanding General Fund bonds. The \$10.0 million bond call and refinancing, completed in August 2001, reduced the ongoing General Operating Fund debt service obligation by approximately \$1.1 million annually.

With the adoption of the Fiscal Year 2009-10 budget, as one of the budget balancing strategies, Council approved the remaining debt service payments to be transferred to the Construction/Conveyance Tax Fund until the remaining debt payments are repaid in Fiscal Year 2015-16.

### **FORECAST**

City Hall/Center for the Performing Arts: The remaining debt service payments will be funded by the Construction/Conveyance Tax Fund.

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<sup>1</sup> Including the positions unfunded in Fiscal Years 2009-10 and 2010-11 and taking into consideration certain changes such as converting IT positions from contract and moving the Building Services programs out of the GOF.

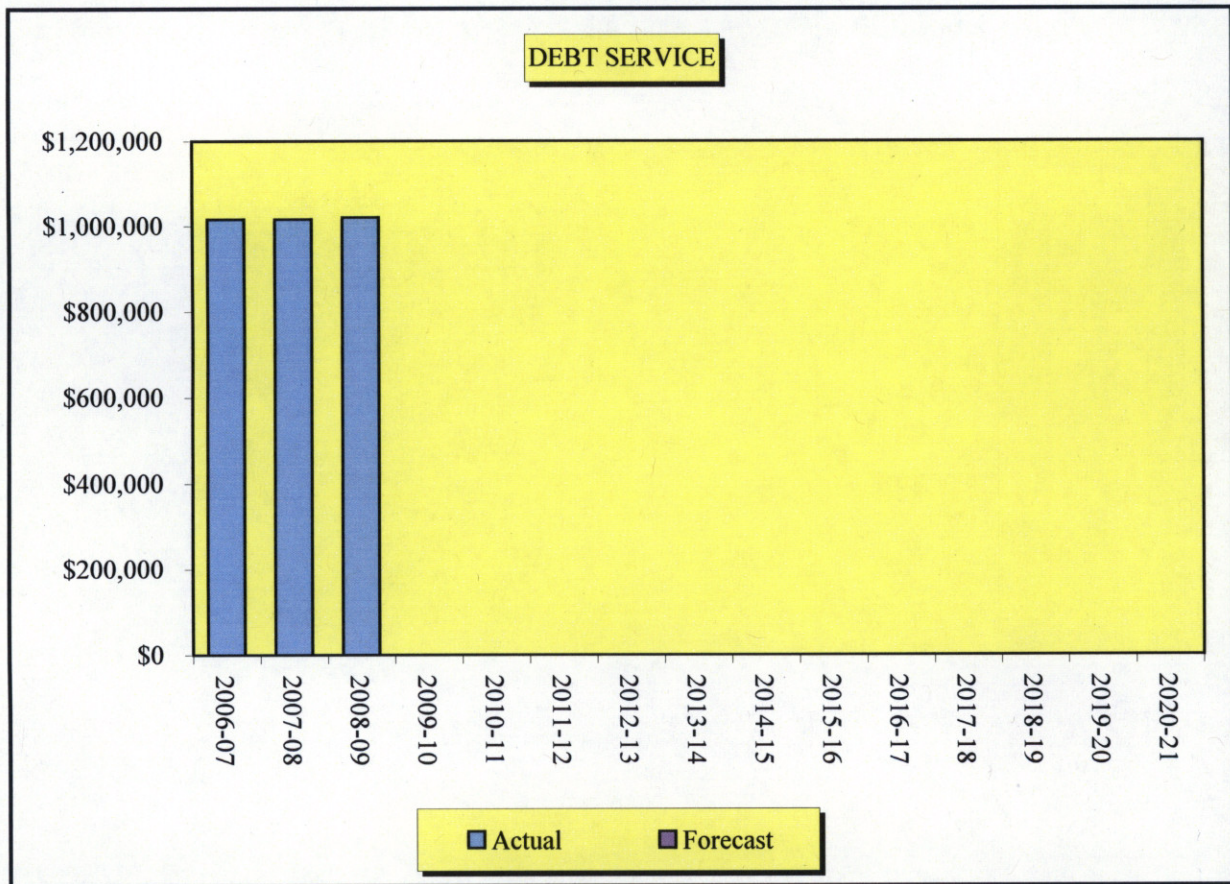
<sup>2</sup> Not including estimated budget savings.

<sup>3</sup> Includes single-family housing, condominiums, townhouses and duplexes.

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Attachment: A. General Operating Fund History





<u>Fiscal Year</u>	<u>Annual Expenditures</u>	<u>% Change</u>
2006-07	1,016,000	(0.5%)
2007-08	1,016,000	0.0%
2008-09	1,020,000	0.4%
2009-10	0	(100.0%)
2010-11 *	0	0.0%
2011-12 **	0	0.0%
2012-13	0	0.0%
2013-14	0	0.0%
2014-15	0	0.0%
2015-16	0	0.0%
2016-17	0	0.0%
2017-18	0	0.0%
2018-19	0	0.0%
2019-20	0	0.0%
2020-21	0	0.0%

\* Estimated

\*\* Recommended

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# **Attachment A**

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GENERAL OPERATING FUND HISTORY  
(amounts in thousands)

	<u>2000-01</u> <u>AUDITED</u>	<u>2001-02</u> <u>AUDITED</u>	<u>2002-03</u> <u>AUDITED</u>	<u>2003-04</u> <u>AUDITED</u>	<u>2004-05</u> <u>AUDITED</u>	<u>2005-06</u> <u>AUDITED</u>	<u>2006-07</u> <u>AUDITED</u>	<u>2007-08</u> <u>AUDITED</u>	<u>2008-09</u> <u>AUDITED</u>	<u>2009-10</u> <u>AUDITED</u>
REVENUES:										
Property Tax	\$12,825	14,262	15,110	15,016	15,502	21,135	22,027	23,681	25,647	26,017
Sales Tax	24,108	16,715	14,328	14,158	14,852	16,019	17,223	17,273	16,264	15,242
Other Taxes	9,488	7,806	7,217	6,794	7,376	7,957	9,357	10,338	9,242	9,144
Use of Money and Property	9,644	9,959	9,455	9,491	9,128	8,991	10,242	11,165	11,480	10,881
Other Revenue	24,749	21,995	22,566	24,260	24,712	22,751	24,232	23,623	23,270	23,072
Loan Repayments	<u>1,894</u>	<u>1,894</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>	<u>2,060</u>
TOTAL REVENUES	<u>82,708</u>	<u>72,631</u>	<u>70,736</u>	<u>71,779</u>	<u>73,630</u>	<u>78,913</u>	<u>85,141</u>	<u>88,140</u>	<u>87,963</u>	<u>86,416</u>
EXPENDITURES:										
Salaries and Benefits	43,838	48,659	50,431	51,012	51,165	54,818	58,454	63,374	68,091	69,549
Services and Supplies	13,190	13,576	12,780	12,250	11,775	12,563	13,782	13,567	13,155	11,933
Other Operating	2,894	3,178	2,127	1,194	1,572	1,984	2,902	3,858	2,313	4,654
Debt Service	<u>2,135</u>	<u>1,868</u>	<u>1,002</u>	<u>1,021</u>	<u>1,019</u>	<u>1,021</u>	<u>1,016</u>	<u>1,016</u>	<u>1,020</u>	<u>-0-</u>
TOTAL EXPENDITURES	<u>62,057</u>	<u>67,281</u>	<u>66,340</u>	<u>65,477</u>	<u>65,531</u>	<u>70,386</u>	<u>76,154</u>	<u>81,815</u>	<u>84,579</u>	<u>86,136</u>
OPERATING BALANCE	<u>\$20,651</u>	<u>5,350</u>	<u>4,396</u>	<u>6,302</u>	<u>8,099</u>	<u>8,527</u>	<u>8,987</u>	<u>6,325</u>	<u>3,384</u>	<u>280</u>

GENERAL OPERATING FUND HISTORY  
(annual percent change)

	<u>2000-01</u> <u>AUDITED</u>	<u>2001-02</u> <u>AUDITED</u>	<u>2002-03</u> <u>AUDITED</u>	<u>2003-04</u> <u>AUDITED</u>	<u>2004-05</u> <u>AUDITED</u>	<u>2005-06</u> <u>AUDITED</u>	<u>2006-07</u> <u>AUDITED</u>	<u>2007-08</u> <u>AUDITED</u>	<u>2008-09</u> <u>AUDITED</u>	<u>2009-10</u> <u>AUDITED</u>	<u>10-Year</u> <u>AVERAGE</u>
REVENUES:											
Property Tax	11.2%	11.2%	5.9%	(0.6%)	3.2%	36.3%	4.2%	7.5%	8.3%	1.4%	8.9%
Sales Tax	10.7%	(30.7%)	(14.3%)	(1.2%)	4.9%	7.9%	7.5%	0.3%	(5.8%)	(6.3%)	(2.7%)
Other Taxes	20.0%	(17.7%)	(7.5%)	(5.9%)	8.6%	7.9%	17.6%	10.5%	(10.6%)	(1.1%)	2.2%
Use of Money and Property	15.7%	3.3%	(5.1%)	0.4%	(3.8%)	(1.5%)	13.9%	9.0%	2.8%	(5.2%)	3.0%
Other Revenue	6.4%	(11.1%)	2.6%	7.5%	1.9%	(7.9%)	6.5%	(2.5%)	(1.5%)	(0.9%)	0.1%
Loan Repayments	0.0%	0.0%	8.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.9%
TOTAL REVENUE	10.7%	(12.2%)	(2.6%)	1.5%	2.6%	7.2%	7.9%	3.5%	(0.2%)	(1.8%)	1.7%
EXPENDITURES:											
Salaries and Benefits	3.4%	11.0%	3.6%	1.2%	0.3%	7.1%	6.6%	8.4%	7.4%	2.1%	5.1%
Services and Supplies	6.6%	2.9%	(5.9%)	(4.1%)	(3.9%)	6.7%	9.7%	(1.6%)	(3.0%)	(9.3%)	(0.2%)
Other Operating	(1.2%)	9.8%	(33.1%)	(43.9%)	31.7%	26.2%	46.3%	32.9%	(40.0%)	101.2%	13.0%
Debt Service	(0.5%)	(12.5%)	(46.4%)	1.9%	(0.2%)	0.2%	(0.5%)	0.0%	0.4%	(100.0%)	(15.8%)
TOTAL EXPENDITURES	3.7%	8.4%	(1.4%)	(1.3%)	0.1%	7.4%	8.2%	7.4%	3.4%	1.8%	3.8%

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